

*Gov. Doc*  
*Can*  
*Comp*  
*Ba.*  
*Committee on (Monetary)*  
Second Session—Twenty-fourth Parliament  
1959

# THE SENATE OF CANADA



## PROCEEDINGS

OF THE

STANDING COMMITTEE ON

# BANKING AND COMMERCE

To whom was referred the Bill C-48, intituled: An Act to amend  
the Income Tax Act

*[14]*  
The Honourable SALTER A. HAYDEN, Chairman

WEDNESDAY, JUNE 10th, 1959.

### WITNESSES:

Mr. J. Gear McEntyre, Deputy Minister, Taxation Division, Department  
of National Revenue; Mr. F. R. Irwin, Director, Taxation Division,  
Department of Finance; Mr. D. R. Pook, Chief Technical Officer,  
Assessment Branch, Department of National Revenue.

### REPORT OF THE COMMITTEE

---

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1959

## BANKING AND COMMERCE

The Honourable Salter Adrian Hayden, Chairman

### The Honourable Senators

*Aseltine	Golding	Pouliot
Baird	Gouin	Power
Beaubien	Haig	Pratt
Bois	Hardy	Quinn
Bouffard	Hayden	Reid
Brunt	Horner	Robertson
Burchill	Howard	Roebuck
Campbell	Hugessen	Taylor ( <i>Norfolk</i> )
Connolly ( <i>Ottawa West</i> )	Isnor	Thorvaldson
Crerar	Kinley	Turgeon
Croll	Lambert	Vaillancourt
Davies	Leonard	Vien
Dessureault	*Macdonald	Wall
Emerson	McDonald	White
Euler	McKeen	Wilson
Farquhar	McLean	Woodrow—50.
Farris	Monette	
Gershaw	Paterson	

---

\**Ex officio member.*

(Quorum 9)

## ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate for Wednesday, May 27th, 1959.

Pursuant to the Order of the day, the Senate resumed the adjourned debate on the motion of the Honourable Senator Thorvaldson, seconded by the Honourable Senator Pearson, for the second reading of the Bill C-48, intituled: "An Act to amend the Income Tax Act".

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

The Bill was then read the second time.

The Honourable Senator Pearson moved, seconded by the Honourable Senator Monette, that the Bill be referred to the Standing Committee on Banking and Commerce.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,  
*Clerk of the Senate.*

## REPORT OF THE COMMITTEE

WEDNESDAY, June 10th, 1959.

The Standing Committee on Banking and Commerce to whom was referred the Bill (C-48), intituled: "An Act to amend the Income Tax Act", have in obedience to the order of reference of May 27th, 1959, examined the said Bill and now report the same with the following amendments:—

1. *Page 11, line 16:* After "or" insert "charterparty".
2. *Page 11:* Strike out clause 19.

All which is respectfully submitted.

SALTER A. HAYDEN,  
*Chairman.*

## MINUTES OF PROCEEDINGS

WEDNESDAY, June 10th, 1959.

Pursuant to adjournment and notice the Standing Committee on Banking and Commerce met this day at 10.30 a.m.

*Present:* The Honourable Senators: Hayden, *Chairman*; Aseltine, Beaubien, Brunt, Croll, Davies, Emerson, Euler, Farris, Gouin, Hugessen, Kinley, Lambert, Leonard, Macdonald, McKeen, Pouliot, Power, Pratt, Reid, Thorvaldson, Turgeon, Vaillancourt, Wall, White, Wilson and Woodrow—27.

*In attendance:* Mr. E. R. Hopkins, Law Clerk and Parliamentary Counsel and the Official Reporters of the Senate.

Bill C-48, An Act to amend the Income Tax Act, was read and considered clause by clause.

On MOTION of the Honourable Senator Macdonald it was RESOLVED to report recommending that authority be granted for the printing of 600 copies in English and 200 copies in French of the proceedings on the said Bill.

The following witnesses were heard:—

Mr. J. Gear McEntyre, Deputy Minister, Taxation Division, Department of National Revenue, Mr. F. R. Irwin, Director, Taxation Division, Department of Finance and Mr. D. R. Pook, Chief Technical Officer, Assessment Branch, Department of National Revenue.

After discussion clauses 1 to 17 were carried, clauses 18 and 19 were postponed. Clauses 20 to 24 were carried.

At 12.30 p.m. the Committee adjourned until 8.00 p.m. this day.

At 8.00 p.m. the Committee resumed consideration of Bill C-48, An Act to amend the Income Tax Act.

*Present:* The Honourable Senators:—Hayden, *Chairman*; Aseltine, Bouffard, Brunt, Davies, Dessureault, Emerson, Farris, Gershaw, Golding, Hugessen, Isnor, Kinley, Leonard, Macdonald, McKeen, Monette, Pouliot, Pratt, Reid, Thorvaldson, Vaillancourt, Wall and Woodrow—25.

*In attendance:* Mr. E. R. Hopkins, Law Clerk and Parliamentary Counsel and the Official Reporters of the Senate.

The following witnesses were further heard in explanation of the Bill:—Messrs. J. Gear McEntyre, F. R. Irwin and D. R. Pook.

Clauses 25, 26, 27 and 28 were carried.

The Committee then reverted to the consideration of clauses 18 and 19.

After discussion the following amendment to clause 18 was moved:—

*Page 11, line 16:* After “or” insert “charterparty”. The question being put on the said Motion, the Committee divided as follows:—

YEAS:

13

NAYS:

8

and so it was declared carried in the affirmative.

The question being put on a Motion to strike out clause 19, the Committee divided as follows:

YEAS:

12

NAYS:

5

and so it was declared carried in the affirmative.

It was RESOLVED to report the Bill with two amendments.

At 10.30 p.m. the Committee adjourned to the call of the Chairman.

Attest.

A. Fortier,  
*Clerk of the Committee.*

THE SENATE  
STANDING COMMITTEE ON BANKING AND COMMERCE  
EVIDENCE

OTTAWA, Wednesday, June 10, 1959

The Standing Committee on Banking and Commerce, to whom was referred Bill C-48, an Act to amend the Income Tax Act met this day at 10.30 a.m.

Senator Hayden in the Chair.

The CHAIRMAN: Honourable senators, we have before us this morning Bill C-48, a bill to amend the Income Tax Act. We already have passed a resolution providing for the reporting of evidence to be taken this morning. I suggest, therefore, we proceed with consideration of the bill.

We have with us officials from the several departments concerned: Mr. Irwin, Director, Taxation Division, Department of Finance; Mr. Isbister, Assistant Deputy Minister, Department of Finance; Mr. McEntyre, Deputy Minister, Taxation Division, Department of National Revenue. I understand Mr. Irwin and Mr. McEntyre may be in the forefront in answering questions; so, I would ask them to come forward and take the preferred seats.

Gentlemen, since this bill consists of a series of what might be called unrelated sections, related only by virtue of the fact that they either impose additional tax or resolve what are supposed to be problems that have been developed. I fancy perhaps in the rare instance they are ameliorating. Perhaps the best way would be to consider the bill section by section, and you can get whatever explanation you want as we go along.

Some SENATORS: Agreed.

The CHAIRMAN: Dealing with section 1 of the bill: this, I suppose, is an ameliorating section. Mr. Irwin, are you going to explain it?

Mr. F. R. IRWIN (*Director, Taxation Division, Department of Finance*): Mr. Chairman, clause 1 adds the underlined words only for the purpose of clarification of what is meant by the term "group insurance plans". With these clarifying words the term "group insurance plan" could cover any kind of insurance purchased by a group. It is believed that the addition of these words will not restrict any existing insurance arrangements.

Senator BRUNT: The words that you put in are words of limitation.

Mr. IRWIN: They are words of limitation, but they clarify what is meant by the term.

Senator LEONARD: Was there any other kind of group insurance plan that you ran into?

Mr. J. Gear MCENTYRE (*Deputy Minister, Taxation Division, Department of National Revenue*): Mr. Chairman, I don't think we ever ran into any group of insurance plans, other than life, sickness or accident; but it might be possible that there would be some casualty insurance or something of that kind, which I don't think was ever intended.

Senator BRUNT: Would you be plugging any possible loop-hole for the taxpayer to get something in which you think should not be put in?

The CHAIRMAN: Is not accident a sort of casualty insurance?

Mr. McENTYRE: Usually sickness and accident go together in these plans, and they cover hospitalization, doctor bills, loss of earnings, and that sort of thing.

Senator KINLEY: Sickness is a comprehensive word, is it not, covering doctor bills, medicine benefits, and everything like that?

Mr. McENTYRE: Yes.

Senator KINLEY: You deduct from a workman say, half of the group insurance plan for life and that type of coverage; the company pays half and the employee pays half. The amount the employee pays is deducted from his salary for income tax purposes.

Mr. McENTYRE: Mr. Chairman, the employee would have to bring into his income tax calculations the salary he received, but if a portion was borne by his employer no value would be placed on that portion. But, if a portion is paid out of the employee's salary, that is not deducted.

Senator KINLEY: The employer's part is a portion of his profits; so, it is the same thing.

Senator BRUNT: How does this fit into the present section of the act? It is pretty difficult to set in this clause (a). Is this an exemption that is provided?

The CHAIRMAN: It is a deduction section, is it not?

Senator LEONARD: The only new words are "life, sickness or accident".

Senator HUGESSEN: It is not a deduction section. Section 5 begins this way:

"Income for a taxation year from an office or employment is the salary, wages and other remunerations, including gratuities, received by the taxpayer in year plus—"

Senator BRUNT: And this is added in?

Senator LEONARD: It always has been there.

The CHAIRMAN: This is an exception in that "plus".

Senator BRUNT: I did not think what you collected under an insurance policy is added into an income that you receive.

The CHAIRMAN: The clause reads, "(Except the benefit he derives from his employer's contributions to or under a registered pension fund or plan, group, life, sickness or accident insurance plan, medical service plan or supplementary unemployment benefit plan)."

So it is an exception within the spelling out of what is income. As I said in the beginning, it is ameliorating in a sense except that there are words of limitation.

Will the section carry?

Carried.

The CHAIRMAN: We will now deal with section 2.

Senator MACDONALD: Is this ameliorating also?

The CHAIRMAN: I would hesitate very much to say. Mr. Irwin, what have you to say about this section?

Mr. IRWIN: This new paragraph deals with group life insurance and it provides that the amount of premium paid by an employer to provide an employee with group life insurance coverage in excess of \$25,000 will be added to the income of the employee. The method of making this calculation is set out as an example in the explanatory notes.

Senator WALL: Who will make this calculation, the employee?

Senator BRUNT: No, Mr. McEntyre will.

The CHAIRMAN: I would think the answer, Senator Wall, would be that if the employee does not do a good job on it that when his returns being reviewed the calculation will be made in the department.

Senator DAVIES: Will it not be deducted at the source the same as it is now?

Mr. McENTYRE: It is a question whether all the facts would be known sufficiently in advance to permit the employer to establish what portion of the premium must be included in the man's remuneration so that the deductions at source could be calculated at that time. But we do not anticipate that the additional income resulting from this calculation will be very substantial, it will happen only in a few cases.

Senator KINLEY: Well, a \$25,000 policy means you are getting into pretty big money.

The CHAIRMAN: Tell me this, Mr. McEntyre, there is the obligation on the employer to take and remit, in other words, to withhold the amount of tax in connection with salary paid to an employee. Now, how would you consider that obligation if the employer does not make this calculation when the employer does know that there is group insurance in excess of \$25,000 a year on the life of one of his employees. Would you penalize him and levy some interest penalty against him for not withholding the amount which he should?

Mr. McENTYRE: There is a provision in the regulations for waiving the deduction at source or agreeing to an amount different from that set out in the tables and I would think that in a case of this kind if the employer made a fair attempt to arrive at the amount that had to be added to the remuneration of the employee and made the deductions in consequence that we would be quite satisfied with that.

Senator KINLEY: Mr. Chairman, when you take out a policy of \$25,000 on an employee you are getting into big money, and I would imagine that this would only take place where a director or a manager is so important to an organization that if he dies it is going to be detrimental to the company so the company insures his life and pays a premium and the benefit will go to the company on his death. Is that so?

Mr. CHAIRMAN: Senator Kinley, this is not that kind of policy. This is group life insurance as part of a pension plan.

Mr. McENTYRE: It may be part of a pension plan or it may be group life but it is group life insurance for the benefit of the employee.

Senator BRUNT: It has nothing to do with policies issued to individuals in the company. To take an example, supposing Canadian Pacific Railway insured its president, Mr. Crump, for \$1 million under one policy. Would this section have any application?

Mr. McENTYRE: That would be an insurance policy taken out by the C.P.R. and the C.P.R. would be the beneficiary of that policy. That is not the type of circumstances that this section is directed to.

Senator MACDONALD: Is it correct to say that this clause applies only to group insurance, to a policy taken out under a group insurance plan?

Mr. McENTYRE: Yes.

Senator KINLEY: What would happen to the \$25,000? Of course that would not bother many of us.

Mr. McENTYRE: Under \$25,000 the existing section applies which means that the premium which the employer pays on behalf of his employee as part of a group insurance policy is not added to the income of the employee.

Mr. Chairman, perhaps I should mention that it has been brought to my attention that this premium which is added to income is not added to income in remuneration, salaries and wages, covered by section 5, which is subject to deduction at source, but is added to income under section 6. So that there is no question of the employer having to withhold tax at source on the amount of the premium.

Senator REID: May I ask if there are any great numbers who come under the \$25,000 group? I am just interested in knowing the number.

Mr. McENTYRE: We have no statistics on the various groups in force. We do not know how many would have employees receiving coverage of \$25,000, but we think that they would be in very small proportion to the total groups in operation.

Senator BRUNT: Mr. Irwin, can you tell me the thinking behind this? Why is this put in? We have had the Income Tax Act since 1917, and we have got along for 42 years without this. Why was it put in?

Mr. IRWIN: Mr. Chairman, there is a limit to what I can say towards explaining Government policy.

The CHAIRMAN: You cannot go back 40 years.

Mr. IRWIN: No. I would suggest that the exception that has been in the law for a good many years dates from a time when group life insurance covered very small amounts, or much smaller amounts than have appeared in recent years. It is, I think, well known that some group life plans do provide coverage well in excess of \$25,000, and if an employer pays a premium to provide a substantial amount of life insurance, that is a benefit conferred upon the employee, and since benefits which when received by virtue of employment are subject to income tax it seems only fair that this particular benefit should also be brought into account for tax.

The CHAIRMAN: Or that there should be a limit above which the benefit would be brought into tax?

Mr. IRWIN: Well, a limit has been brought in here, and it is only above this amount that this—

Senator BRUNT: Do you expect it will produce any substantial sum in the way of revenue?

Mr. IRWIN: No, sir.

Senator McKEEN: Mr. Chairman, some insurance companies are now issuing policies—they have them in the States already—where they don't pay in the dollars of the day; they increase the premium as the dollar goes. Now, what would the situation be in a case of this kind? This act is in effect, and the policy is \$25,000, and the group plans goes up on account of the dollar going down. Is there any provision for that? They do not pay it in the dollar of the day, they pay it as the dollar value goes down. One company has a policy years. It is, I think, well known that some group life plans do provide coverage for teachers and professors, and the amount of the payment on death, or through benefits, is increased as the dollar value goes down. I think they have started that in five States. Apparently, the premium is the same. They do it by investing the funds in common stocks rather than in bonds. It is quite a factor, because you can well understand that in selling insurance, if you sell a fellow a policy for \$100 a month, the value in ten years might be very different. What effect would this legislation have on that?

The CHAIRMAN: You have a ceiling of \$25,000, whatever that means at the time.

Mr. IRWIN: I think the kind of insurance the senator is referring to is more in the field of variable annuities, where there is going to be an income derived from the policy. I do not think that this has come into use in the field of group life insurance. If it does, I suppose we shall have to look at it.

Senator McKEEN: Would you re-value the policy then from year to year?

The CHAIRMAN: Well, first of all, Senator McKeen, this section deals only with group life.

Senator McKEEN: Well, they are talking about group life. This is something very new, and just passed by the legislature on the American side in the past two months.

The CHAIRMAN: But this fixes it in the amount of \$25,000; it is not variable.

Senator McKEEN: What effect would that have, I am asking. The excess over \$25,000 may be very variable. It would have to be calculated every year, how much in excess of \$25,000. Of course, these cases are very rare, and I will not press it.

Senator WALL: May I ask what is the relative benefit to one who is receiving \$25,000 of insurance with the premiums paid by an employer? What is the relative benefit to that person? Supposing an ordinary person wanting \$25,000 in insurance. I would have to pay it out of my income. Tom Smith is working for a company and getting \$25,000 worth of insurance, which is paid for by the company, and therefore rather than having him pay for it the company pays for it. What is the extent of that benefit? Is it \$200 a year or \$500? What is the average premium? I know it will vary with age.

Senator BRUNT: Apply the formula.

The CHAIRMAN: No, the formula calculates the excess which is for the account of the taxpayer.

Senator WALL: I am thinking of up to the \$25,000.

Mr. IRWIN: Mr. Chairman, the law here sets out the rule for determining the dollar amount of the premium, and the rule is based on the average premium, it looks at the total premium paid by the employer to the life insurance company, and then calculates the premium that is paid for an individual, for coverage in excess of \$25,000. Then it allows a deduction for such part of the premium paid on that insurance by the employee.

Senator WALL: The point really at issue is that an average Canadian not so covered by those provisions could say "I am being discriminated against."

The CHAIRMAN: There is nothing new about that.

Senator KINLEY: The problem today with insurance is that you may be paying premiums with good dollars and make a settlement later with bad dollars.

The CHAIRMAN: The only way you can cover that is to insist on a contract that will protect you.

Senator KINLEY: I talked to a man the other day who had a \$5,000 policy in England, and settled it in the present currency at about half that figure.

The CHAIRMAN: The income tax people can't adjust that.

Senator DAVIES: This is not going to affect the great mass of employees, is it?

Senator BRUNT: No, it is an exception. Let us pass it.

Senator GOUIN: What is meant by the technical expression "experience rating of the fund"?

Mr. IRWIN: I understand there is a premium fixed, which the employer has to pay the insurance company based on the number of employees and their ages; then, after a year's experience, if the claims have been low, they may find he has paid too much, and allow a refund.

The CHAIRMAN: The formula is predicated on the dollars that are actually expended for the purpose of premium; so, if there is a refund you operate on the net?

Mr. IRWIN: That is correct.

The CHAIRMAN: The approval of subsection 1 of section 2 of the bill would take us down to the bottom of page 2. Can we approve of that portion?

Some SENATORS: Carried.

The CHAIRMAN: Subsection 2: What is the effect of that subsection, Mr. Irwin?

Mr. IRWIN: This is a new paragraph, and merely adds a cross-reference in section 6. Section 6 of the act lists the amounts that have to be included in computing income. So, for uniformity this refers to the amount received by the taxpayer under a registered retirement savings plan. There is no change in substance.

The CHAIRMAN: As a matter of fact, taxpayers have been required to include that, have they not?

Mr. IRWIN: Yes.

Senator HUGESSEN: It is just to clean up this section, as a result of the insertion of section 79B a year ago.

Mr. IRWIN: Correct.

The CHAIRMAN: Shall the subsection carry?

Some SENATORS: Carried.

The CHAIRMAN: Subsection 3, at the bottom of page 2: that is another cross-reference, is it?

Mr. IRWIN: This follows from the amendment we have just discussed, dealing with group life insurance, and it states how the expression "policy year" shall be construed. It was thought that this was necessary, as otherwise it might be possible to have a policy year for less than 365 days.

The CHAIRMAN: Carried?

Some SENATORS: Carried.

The CHAIRMAN: We come now to section 3: this simply gives statutory effect to a practice that has been carried on in the department for years. Is that not right?

Mr. IRWIN: Yes.

Senator BRUNT: That is under clause 1?

The CHAIRMAN: Clause 1, yes. It is subclause 1 of clause 3, dealing with the transfer fees, and fees payable to the registrar of a company and to transfer agents.

Senator BRUNT: This is a break to the taxpayer.

The CHAIRMAN: In practice, my understanding is this has been allowed to the taxpayer, is that right?

Mr. IRWIN: That is right, Mr. Chairman.

Senator WALL: What is the problem then? If this has been done in practice, why are we giving it statutory validation?

Senator BRUNT: On account of a court decision.

Mr. IRWIN: Yes, a recent court decision threw some doubt on the rights of the department to allow the deduction.

Senator HUGESSEN: Is that the Distillers-Seagram case?

Mr. IRWIN: Yes.

The CHAIRMAN: Shall subsection 1 of section 3 carry?

Some SENATORS: Carried.

The CHAIRMAN: Subsection 2.

Mr. IRWIN: Subsection 2 deals with the transfer of pension funds. The general provision of the Income Tax Act is that amounts received as payments out of a pension plan must be included in income, and this rule includes lump sum payments withdrawn from a plan when an employee leaves the employment, for one reason or another, before the retirement age. This amendment provides that these withdrawals do not have to be included in income to the extent that the amount that is withdrawn is used as a contribution to a registered employee's pension plan, or as a premium under a registered retirement savings plan.

Senator BRUNT: That is, registered as to an individual?

Mr. IRWIN: Yes, a registered retirement plan as defined in the Income Tax Act. This permits an employee who moves from one employer to another to take a withdrawal from the first employer's pension plan, and place it in a second plan, provided the second employer agrees, without having to pay income tax on the amount withdrawn.

Senator BRUNT: What is the present practice in circumstances such as you have outlined?

Mr. IRWIN: Mr. McEntyre may want to speak on this, but I understand in those cases where there has been a withdrawal from one plan and a transfer to another, and the money did not go to the employee, that this plan has been followed. But that does not always happen. An employee may not make a direct transfer from one employer to another. Also, of course, this amendment will take care of the situation where an employee leaves employment and becomes self-employed and wishes to start a plan for his retirement by paying premiums into a registered retirement savings plan.

Senator DAVIES: But he has got to put all the money he receives into the plan; if there is any left over from the first employer he has to pay a tax on it.

Mr. IRWIN: He is not taxable on that portion of it which is withdrawn and is used in this way.

Senator DAVIES: But what is left over is taxable?

Mr. IRWIN: Yes, and always has been.

The CHAIRMAN: What Senator Davies is saying, if an employee contributed less than the full amount that he took out of an existing plan, and he contributes less than that amount to a second employment plan, then he is taxed on what he keeps in his own hands.

Mr. IRWIN: Yes, that is correct. ,

Senator MACDONALD: What is the present plan when the money is so withdrawn?

Mr. IRWIN: There is a special section in the Income Tax Act which allows the employee an option to have that lump sum taxed on the average of his tax for the past three years of employment. If he does not choose to take that option, it is taxed as ordinary income.

Senator BRUNT: In the year in which it is received.

Mr. IRWIN: In the year in which it is received.

Senator MACDONALD: Will that section of the act be amended, if we pass this amendment?

Mr. McENTYRE: There is an amendment in the bill.

Senator WALL: Mr. Chairman, perhaps this is a mischevious question, but I do not intend it to be : suppose I as an employee withdraw a sum of money at the beginning of the taxation year 1959 to buy a registered plan on December 29, 1959, is there going to be any problem in timing in the taxation year?

Mr. IRWIN: Not if it is done within the year or 60 days after the end of the year.

The CHAIRMAN: That is what the amending section does.

Senator DAVIES: Whose responsibility is it, that of the employer or the employee who is withdrawing the money, to notify the Income Tax Department?

Mr. McENTYRE: The employer would advise the Income Tax Department of any withdrawal from the pension fund and then it would be up to the individual taxpayer himself to claim the deduction, explaining the circumstances under which he returned the money withdrawn to another pension plan.

Senator DAVIES: You say the employer would. Is he bound to do so under the act?

Mr. McENTYRE: Under the regulations. It is part of the regular reporting procedure that employers do in reporting remuneration paid to employees.

The CHAIRMAN: Any other questions? Shall the section carry?

Carried.

That deals with subsection 2.

Now, subsection 3 of section 3, at the top of page 4.

This introduces a different subject. Would you just give a brief explanation, Mr. Irwin?

Mr. IRWIN: This deals with the situation where depreciable property has been sold and the proceeds of disposition are not all collectible. When depreciable property is disposed of for more than its depreciated value, as you know there is a provision under the act for recapture of this excess. However, the proceeds of disposition are not always collectible and this amendment will permit a deduction from income of a certain amount of the proceeds of disposition that can be established as becoming a bad debt.

Senator ASELTINE: This is a relieving section?

Mr. IRWIN: Yes.

Senator DAVIES: Is there anything in this which deals with the amount of rent that can be collected on a property? Is it within the power of the Income Tax Department to say what a landlord shall charge for property that he is renting to another?

Mr. IRWIN: That is not covered under this particular section.

Senator DAVIES: But there is some clause in the Income Tax Act that deals with rentable property and its rentable value, is there not?

The CHAIRMAN: You mean sepcifically?

Senator DAVIES: Well, if a person owns a house and is charging a certain rent for it and the Income Tax Department thinks that you are not charging enough rent they can make you report more rent and say this propptrty should be rented for so much.

The CHAIRMAN: Not if the parties are at arms' length.

Senator BRUNT: If I own a house and rent it at \$10 a month nobody can say that I should rent it at \$50 a month.

Senator DAVIES: They can do it. They did it with me, and they made me pay \$600 extra.

The CHAIRMAN: Maybe you needed a lawyer.

Senator DAVIES: No, I was renting this property at more rent than the assessment made it necessary, but the Income Tax Department said it was not enough rent and therefore you should get more and then they made me pay tax on what rent they thought I should have been getting.

Senator BRUNT: Was the person to whom you rented the property related to you in any way?

Senator DAVIES: No.

Senator BRUNT: Was it in Canada or in England?

Senator DAVIES: Right here.

Senator MACDONALD: If I bought a house in 1950 for \$10,000 and have been depreciating it over the years so that its depreciated value is now \$5,000 and I sell the house for \$20,000 do I have to account for the increase?

The CHAIRMAN: There is a recapture of the depreciation you have written off.

Senator LEONARD: Just the recapture of the depreciation.

Senator BRUNT: But if you have about three transactions you will be taxed on them.

Senator MACDONALD: The depreciation on that house I mentioned is \$5,000.

The CHAIRMAN: Yes.

Senator MACDONALD: Would that be shown as income for me in that year and be added to any other income I have made?

Senator BRUNT: That is right.

Senator HUGESSEN: But if you could not collect the \$20,000 from the person to whom you sold the house, this section would be advantageous to you.

The CHAIRMAN: After having paid the tax and not being able to collect, you could write off the bad debt in a subsequent year.

Senator BRUNT: If you sell the property on credit over a term of years, when do you pay? During the taxation year that the sale was made or as you collect the money over the long term that you have given?

Mr. MCENTYRE: There is a section in the act which requires that at the time of sale the price be taken into account as a receipt, and then if the term of the sale is over two years there is provision for a reserve being set up which would postpone a portion of the profit until a later year. As a matter of fact, there is an amending section to the bill which deals with that and which we are coming to later on.

Senator PRATT: You set up a rate of depreciation which has the effect of diminishing the value of the property year by year?

The CHAIRMAN: As you get paid, you bring it back into income.

Senator KINLEY: Suppose that some years ago I made an agreement of sale for over \$5,000 and certain things had depreciated on the property. Would the man you sell that to have any interest in this?

The CHAIRMAN: He is not interested in that. It is the seller only.

Shall the section carry?

Carried.

Subsection 4 of section 3—I am just curious, Mr. Irwin, to know how you happened to hit on a date like 1955. You say subsection 1 is applicable to the 1955 and subsequent taxation years, and then you have assigned 1959 to the other parts. Have you any particular reason for the difference in dates?

Mr. IRWIN: 1955 relates to these deductible corporate expenses.

Senator LEONARD: You have in practice been allowing that.

Mr. IRWIN: Yes. This is done in case the department might want to go back and deny these deductions in the light of this court decision. I think 1955 will take us back beyond the four-year period.

The CHAIRMAN: Shall subsection 4 carry?

Carried.

Section 4 of the bill. This deals with inventory. Have you any comment to make on that, the value of your closing inventory and the value of the opening inventory the following year must always be the same.

Senator PRATT: That seems to obvious. Is there any reason for that?

Mr. IRWIN: This amendment is just for greater certainty.

The CHAIRMAN: Did you run into some problem which made it necessary for you to spell it out this way?

Mr. IRWIN: No, but it has been suggested that this point might be somewhat obscure with the repeal of the former subsection 1 of section 14.

Senator BRUNT: Surely there has never been a return filed showing the closing inventory of one year not agreeing with the opening inventory of the year following.

Senator LEONARD: It was when you made a change in the act whereby you changed the method by which inventory could be calculated. Am I not correct?

The CHAIRMAN: There are two ways of valuing—you can value at cost or market. Suppose at the end of the year you valued your inventory at cost and let us assume it was possible to get permission of the department to change your basis of valuation you could conceivably come up with a lower valuation, and also come up with a higher one.

Mr. McENTYRE: Yes, that is right.

Senator MACDONALD: Is this not based on the famous case of Dr. Lifo, the case that went to the Privy Council?

The CHAIRMAN: No, that was that Lifo and Fifo case. The thing that bothers me is that somewhere in the statute it says I am entitled to value my inventory at cost or market. Am I being locked in here? Because that would not be available to me at the full limit that it might otherwise be available.

Senator BRUNT: Do you not have to follow whatever system you start to adopt and continue? You do not allow switching, do you?

Mr. McENTYRE: I think it is governed by a court decision that if you establish your closing inventory under one method you must have your opening inventory under the same method for income tax purposes, and that if your opening inventory was on some other method there might be a profit or loss between one year and the next; and this is to prevent that event from happening.

The CHAIRMAN: But in this amendment, if we pass it, where is there any authority in the minister to permit me to change my method of valuation once I have established it? The only time I am concerned with inventory is closing at the end of the year and opening the next year. Does not a combination of what is in section 14(2) now, and this amendment which is to be added by section 4 of the bill, have the effect of locking you to one method, and nobody can change that?

Mr. McENTYRE: There is a regulation dealing with inventory valuations, which I do not happen to have with me.

The CHAIRMAN: Of course, I know the regulation, but I do not know how any regulation can prescribe something that the law does not permit. That is what would bother me.

Senator PRATT: Whatever cost you bring in at the end of the year would come into the beginning of the new year; but that does not affect the general system that is prevailing or the rights of valuation at the end of any year, does it?

The CHAIRMAN: When I am approaching the end of a fiscal year and I have been following a cost method, conceivably I can go to the department and make representations to change the method. If they agree and I change the method, I am stuck with that in the new year.

Senator McKEEN: Can you not change during the year? Take lumber, for instance. The cost of that lumber when bought might be in \$50 logs at the sawmill, and the value might drop, and the cost of production would be higher than the actual value of them on a cost basis, because perhaps you would be making it out of \$25 material.

Senator HUGESSEN: That is covered by section 14(2), which says:

... the property described in an inventory shall be valued at its cost to the taxpayer or its fair market value, whichever is lower ...

So you could put your logs at market value.

Senator McKEEN: But the logs have gone down and your lumber has not.

Senator HUGESSEN: Well, whatever the inventory is at the end of the year is put at cost or market value, whichever is lower.

The CHAIRMAN: You still get some benefit from the regulation. Section 14(2) says:

... or in such other manner as may be permitted by regulation.

Senator McKEEN: That is what I say; we have not had an academic ruling.

The CHAIRMAN: This is an order in council method of relieving. We have had so much discussion about taxation by order in council in another matter. I am all in favour of flexibility.

Senator HUGESSEN: This subsection really limits the department to re-value a valuation.

The CHAIRMAN: You can always build up during a year to get ready for the end of a year.

Senator MACDONALD: It fixes the value; you must use at the end of the year the same you start with at the beginning.

The CHAIRMAN: No; it is the other way.

Senator BRUNT: It is reversed.

Senator HUGESSEN: You have the value at January 1 as you valued it at December 31.

The CHAIRMAN: That is right. Shall section 4 carry? It is very important, by the way, to make this section applicable to 1958 and subsequent years.

Mr. IRWIN: Only that it goes back to the time section 14 (1) was repealed. Section 4 carried.

The CHAIRMAN: Section 5, fiscal period for individual member of partnership wound up.

Mr. IRWIN: This deals with the fiscal period of a member of a partnership. When a partnership is wound up the fiscal period of that partnership is deemed to end at the time, or would be if it were not for the provision of the law. The law has for a number of years provided that when a partnership is wound up under certain circumstances an individual may if he wishes have the fiscal year of the partnership deemed to end at the time it would have ended had the partnership not been wound up.

The CHAIRMAN: All it means is that it preserves the previous fiscal period if the taxpayer wants to preserve it.

Mr. IRWIN: That election was only open to him if the partnership was wound up by reason of death or withdrawal of a partner, or by reason of a new member coming into the partnership. Those restrictive words are being removed by the amendment.

Senator GOUIN: Supposing I wound up a partnership on July 1st of this year, what would be the effect of that?

Mr. IRWIN: Well, if you had a partnership whose fiscal year ended December 15, but you wound it up in June, without this provision in the law the fiscal period would be deemed to have ended in June. This might have meant a bunching of income in the one year. So it might be to your advantage to deem that the fiscal year of that partnership would be ended not in June but in December.

Senator GOUIN: This year?

Mr. IRWIN: Well, perhaps I should have used an example where the fiscal year ended in the next year in January.

Senator McKEEN: What is the date that you take, at the time of the distribution of the assets or of the appointing of the liquidator?

The CHAIRMAN: We are talking about a partnership.

Senator McKEEN: Well, this is the section I am talking about. Supposing you decide to dissolve a partnership and there are certain assets to be liquidated and distributed to the two partners. This is a voluntary breaking up of the partnership. Would you take the date of the liquidation or the date the assets were distributed?

Mr. McENTYRE: If there were distribution I would say we would take the date it was agreed the partnership would cease.

The CHAIRMAN: There are some problems there, Mr. McEntyre, because what I agreed to do I could agree to undo.

Mr. McENTYRE: In any event, under this provision the partnership's fiscal period can be continued until the date on which it will ordinarily end. So, unless the winding up took place very close to the end of that fiscal period, there would be no question that the year end would be the regular fiscal period for the partnership.

Senator McKEEN: But it might take two years to dispose of the assets. For instance, if the partnership owned any real estate, the liquidator would hold the property until he sold it, and then distribute it to the two partners, would the partners have to pay tax on the income before they get it?

The CHAIRMAN: We are mixing up a number of questions here. The only question that concerns this section is the one which Mr. McEntyre and Mr. Irwin have explained. That is: when a partnership is wound up, no matter what may be the reason for doing so, the taxpayer may now take either the time on which the affairs are wound up or the regular fiscal end of the company.

Now, the question you are asking, Senator McKeen, is a question that is inherent in the section, as to whether apart from this amendment, when can you say the affairs of a partnership have been wound up? Is it the date when you pass all the resolutions and make an agreement, or is it when you physically distribute the assets?

Senator FARRIS: Is that involved in this section?

The CHAIRMAN: No.

Senator FARRIS: Don't you think it would be in order to suggest that the senator get a lawyer to advise him instead of asking the officials of the department to do it?

The CHAIRMAN: I was very subtly trying to suggest that.

Senator McKEEN: We have already done so.

The CHAIRMAN: Shall we pass this section?

Some SENATORS: Carried.

The CHAIRMAN: Section 6 really only deals with some definitions, by changing the location of quotation marks.

Mr. IRWIN: That is correct.

The CHAIRMAN: It might be interesting to the committee to know why it is thought necessary to insert an amendment for the purpose only of changing the placing of quotation marks.

Mr. IRWIN: This is a technical amendment which, I believe, is for the purpose of simplicity, so that we will not have to use the whole expression "depreciable property of a tax payer" every time we mean "depreciable property". Also, we won't have to use the whole expression "total depreciation allowed to a taxpayer" when we really only mean "total depreciation".

The CHAIRMAN: Surely there must be some reason for the proposed amendment, other than saving the use of a few words, because I am sure if we went through the statute we could find many instances where words could be saved. Was there a decision of the courts?

Mr. McENTYRE: There was a decision of the Supreme Court, and the reasons for judgment suggested that if we were going to use this term we had to use all the words within the quote, and if we used only some of the words the definition was lost. So, in order to prevent the necessity of repeating this whole long expression, we felt it would be a little easier for the taxpayer if we simply cut down the phrase in quotation.

The CHAIRMAN: Let us put it this way: it would be a little easier in the administration of the income tax?

Mr. McENTYRE: Perhaps it would be a little simpler to draft some of these things, yes.

Senator BRUNT: Anything that would simplify the act, let us pass it.

The CHAIRMAN: Any other questions? Carried?

Some SENATORS: Carried.

Senator DAVIES: If you are dealing with depreciable property of a taxpayer, it is the taxpayer's property whether you describe in two words or five words.

Senator HUGESSEN: Not quite, Mr. Chairman, because section 20 refers in a number of instances to depreciable property without the words "of a taxpayer". What this amendment is designed to do is to make sure those words apply throughout the section.

The CHAIRMAN: That is right.

Some SENATORS: Carried.

The CHAIRMAN: Section 7.

Mr. IRWIN: This section deals with family assistance payments made to the children of new Canadians. The children of new Canadians are not eligible for family allowance payments during their first year in Canada, but they are paid a monthly amount of, I think \$5. This amendment provides that the parents of such children will be treated for income tax purposes as if their children were qualified for family allowances. That is, they will be able to claim only \$250 deduction for the children, instead of \$500 as they would otherwise do.

Senator BRUNT: Is the amount paid under the family assistance the same regardless of the age of the child? You mention \$5?

Mr. IRWIN: I believe so, but I am not certain of that.

The CHAIRMAN: You mean, paid in this particular case?

Senator BRUNT: Yes.

Senator DAVIES: The payment is per child?

Mr. IRWIN: Per child.

Senator DAVIES: The new Canadians definitely get \$5 per child, and not a varying amount, is that correct?

Mr. IRWIN: I understand so, but I could be wrong on that. It is paid by the Department of Citizenship and Immigration.

Senator WALL: Actually, to take the minimum tax rate of 10 per cent, on the difference between \$500 and \$250, we are really recovering \$25 out of the \$60 per child.

Mr. IRWIN: This is to put the parents of a child receiving family assistance on the same basis for tax purposes as the parents of a child receiving family allowances.

Senator WALL: But he receives far less.

The CHAIRMAN: He may receive less.

Senator BRUNT: As I understand it, the maximum payment under family allowance is \$8 a month, per child.

Senator MACDONALD: The explanatory note says this clause extends to the 1959 taxation year. What about subsequent years?

Mr. IRWIN: Mr. Chairman, this money is paid under the annual appropriation bill. It appears in the estimates of the Department of Citizenship and Immigration, and that is why this particular amendment must be a yearly amendment.

The CHAIRMAN: Carried?

Some SENATORS: Carried.

The CHAIRMAN: Section 8

Mr. IRWIN: This would add the underlined items to the defined medical expenses.

The CHAIRMAN: That is subsection 1.

Mr. IRWIN: Subsection 1.

The CHAIRMAN: Carried?

Hon. SENATORS: Carried.

The CHAIRMAN: Subsection 2 deals with the question of the right to deduct medical expenses where there is a hospital plan to which the federal authorities contribute.

Mr. IRWIN: That is correct. This changes the definition of medical expenses to exclude those expenses which are paid on behalf of the taxpayer under a hospital plan of the province, to which the federal Government contributes under the Hospital Insurance and Diagnostic Services Act.

The CHAIRMAN: And that is regardless of the federal contribution to the plan. In other words, if the federal authority contributes a fraction of 1 per cent to the plan, the right to deduct by the individual is gone?

Mr. IRWIN: That is right.

Senator DAVIES: If you have a partial dependent who has an income, including the old age pension, of more than \$950, are you allowed to deduct any medical expenses at all?

Mr. McENTYRE: You are only entitled to deduct medical expenses for yourself or for a dependent.

Senator DAVIES: That is for a complete dependent. What about a partial dependent?

Mr. IRWIN: A dependent as defined in the income tax law.

The CHAIRMAN: I have only one question on this, Mr. Irwin, and perhaps I should not ask you as it is a matter of policy. Do you have any explanation as to why this has developed? Previously, you had a hospital plan to which the federal authority contributed, and an individual might be a member of Blue Cross or some other insurance plan in order to protect him against hospital payments; if he came within the formula for income tax purposes, he could deduct hospital expenses. True, he had paid somebody else to give him that protection. These hospital plans are contributory so he is still paying something. I wonder what the theory is as to why he is not entitled to any deduction within this. He is making a direct contribution to the plan that has federal approval and pays an indirect contribution to the expense in his taxes.

Mr. IRWIN: I think there is this difference. Under the old arrangement the individual did have a liability to pay for his hospital bills. Some people paid for them out of savings, some people borrowed and some people arranged in advance to have them paid for them by the Blue Cross or other hospital plans. The law did not search into how the taxpayer found the money. If he had it paid on his behalf by an insurance plan it was also a medical expense just as if he had borrowed or had taken money from his savings. Under the arrangement of provincial hospital plans the bills are paid for under the plan. The taxpayer does not have to pay these hospital bills and it seemed anomalous that the taxpayer should be allowed to deduct an amount that he did not have to pay.

The CHAIRMAN: But he is paying.

Senator BRUNT: He is paying for that privilege.

Mr. IRWIN: Of course all taxpayers are paying for the provincial hospital plan just as all taxpayers are paying for any universal social benefit, but he is getting a wider coverage. He is paying for it in conjunction with all other taxpayers, and I think the analogy here is that just because a taxpayer pays for a social benefit it does not mean he may deduct it for income tax purposes. To give an example, all taxpayers pay for old age pensions but they do not deduct old age pensions when they receive the benefit under the plan.

Senator BRUNT: But on this particular scheme the taxpayer pays three ways. He pays it in taxes that the Dominion Government collects, he pays it on the taxes that the provincial Government collects, and then out of his own pocket he pays the monthly premium. Now, you do not do all that in old age pension payments.

Senator CROLL: But even at that it is still a bargain.

Senator BRUNT: Well, I am not going to get into whether it is a bargain or not. That has nothing to do with it.

Mr. IRWIN: The method of payment varies from province to province, but in the long run the general body of taxpayers will have to pay for it. In some provinces it is paid for entirely in taxes. In others the individual pays a special contribution as well as provincial taxes and also federal taxes from which the federal contribution to the provincial plan arises. In Ontario there is a special earmarked contribution, but in all provinces the taxpayer pays for the hospital plan.

Senator McKEEN: In British Columbia we pay it under a sales tax and as far as I know we are still going to do that. Some will still be paying tax for hospital insurance. Why is it that we can not take the hospital outlay as a deduction from our taxable income?

The CHAIRMAN: Well, that is a question of Government policy and we cannot expect Mr. Irwin to go very far into the question of Government policy.

Senator DAVIES: He is here representing the department.

The CHAIRMAN: Even so, if we want to go into that we should talk to the minister.

Senator WALL: May I inquire what the constitutional position is or the propriety of us striking this section out? Would we be interfering with ways and means?

The CHAIRMAN: I think we would.

Senator MACDONALD: If you reduce the revenue you would be doing so.

Senator DAVIES: Has this department anything to do with the administration of hospital insurance? I agreed with Senator Croll that hospital insurance is a big bargain, but I do think there will have to be some amendments made sooner or later. For instance, if a person goes into hospital and the wards are filled up and you have to take a private room the extra amount should be deductible.

The CHAIRMAN: That is a matter of administration.

Senator DAVIES: That has nothing to do with this department, has it?

The CHAIRMAN: No. Senator Wall, you raised the question of what we could do. To do what you suggest would be interfering with ways and means although we have the general right to strike something out.

Senator WALL: Would it be fair to ask if we would be in order to make a strong recommendation to the Government that it is not worth the effort it has caused so much concern among Canadians that they had better look at this again for next year.

The CHAIRMAN: There seem to be too many words in what you have suggested, Senator Wall.

Senator KINLEY: If the provincial plans are not adequate and a man pays in for other benefits and he gets a benefit for which the Government does not pay, does he not have the right to deduct that?

The CHAIRMAN: Oh, no.

Mr. IRWIN: Yes.

Senator KINLEY: The sickness benefit is paid, he gets paid \$25 a week, let us say. That is a sickness benefit, that comes under an income and he pays that half and half.

The CHAIRMAN: You mean if he has a supplementary policy outside? Yes, he gets that.

Shall the section carry?

Carried.

At the top of page 6 we have a subparagraph (d). This deals with a particular situation of the Royal Canadian Mounted Police. There is no problem in that.

Mr. IRWIN: No, I think not.

The CHAIRMAN: Shall the section carry?

Carried.

Now we come to section 9.

Senator CROLL: On section 9, Mr. Chairman, may I ask first the reasons for it, and secondly what has been the experience in the past, percentage-wise, Mr. Irwin. What has been the normal giving under that section, percentage-wise?

The CHAIRMAN: You mean the average?

Senator CROLL: Yes, one per cent or two per cent?

The CHAIRMAN: Overall?

Senator CROLL: Yes.

Mr. IRWIN: First of all, the reason for this change is this. Honourable senators will remember that last year the maximum limit deductible as charitable donations by corporations was increased from 5 per cent to 10 per cent but that change was not made in this particular section which deals with life insurance companies. This amendment is to correct that oversight. As to the second part of your question, I believe taxation statistics show that the givings of corporations in 1956 as charitable donations were of the order of one or two per cent of their income.

Senator FARRIS: Mr. E. P. Taylor had that in the newspapers yesterday.

Senator McKEEN: I am inclined to think that life insurance companies would give the maximum allowed because that is only a fraction of their total givings.

Mr. IRWIN: My answer covers all corporations. We have no statistics separate for life insurance companies.

Senator McKEEN: I would think life insurance companies would give the maximum because in addition to that their givings are charged against the policyholders of the company.

Mr. IRWIN: That is right.

Senator HUGESSEN: I was wondering if Mr. Irwin could give us any indication of whether it appears as a result of the amendment made last year to increase the deduction for corporations, the amounts given by corporations generally to charitable organizations are showing a tendency to increase or decrease.

Mr. IRWIN: I may have to ask Mr. McIntyre to speak about that, but I would doubt if we had any returns yet based on 1958 donations.

Mr. McENTYRE: Yes, particularly with respect to corporations which have six months after the end of the year to file their returns, we would not have sufficient information to form an opinion on that.

Section 9 carried.

The CHAIRMAN: Section 10 is just a table of rates.

Senator FARRIS: Should there not be some explanation of the difference is in rates in section 10? There is nothing in the explanatory note to indicate the difference in the amounts given from those given before.

The CHAIRMAN: In the budget they gave calculations.

Senator BRUNT: 2 per cent in points, and everything over \$3,000. Is that not correct?

Mr. IRWIN: That is right.

The CHAIRMAN: It started at \$3,000.

Senator MACDONALD: Where is that stated?

Senator BRUNT: It is in the fine print in the explanation note of clause 10, on the right hand side of the bill.

The CHAIRMAN: It quotes from the budget resolution; it really means two per cent.

Mr. IRWIN: Take, for instance, paragraph (e); it formerly read 20 per cent, and now reads 22 per cent.

Senator MACDONALD: What about paragraph (a)—the 11 per cent?

Senator MACDONALD: What paragraph (a)—the 11 per cent?

Mr. IRWIN: Well, the rates on the first \$3,000 have not been increased, so paragraphs (a), (b) and (c) have no change.

Senator WALL: Does it not mean that paragraphs (c) and (d) previously were 17 per cent?

The CHAIRMAN: That is right, because in the previous total that range was \$2,000 to \$4,000. Now it is split up.

Shall subsection (1) of Section 10 carry?

Carried.

Now, subsection 2. What is the purpose of it?

Mr. IRWIN: Subsection 2 follows from the amendment concerning group life insurance. This merely provides that if an individual is required to take into income some amount because his employer provides him with group life insurance coverage in excess of \$25,000, that amount shall be taxed as earned income and not as investment income.

The CHAIRMAN: This subsection 1 which we did deal with, gives the total for 1959 and subsequent taxation years, is that right?

Mr. IRWIN: I think it is the other way about. Subclause (3) gives the rates for 1959.

The CHAIRMAN: Subclause 3 we are coming to now, deals with 1959, since it is part of the year. Shall subsection 3 carry?

Subsection 3 carried.

Have you a brief explanation to make on section 11, Mr. Irwin?

Mr. IRWIN: This provides for the credit or abatement for individual income taxpayers in the province of Quebec. This extends for another year the provision that the credit for such taxpayers shall be 13 per cent of the federal tax otherwise payable instead of 10 per cent of their tax otherwise payable.

Senator BRUNT: It applies only to the province of Quebec?

Mr. IRWIN: Yes, that is the only province imposing a personal income tax.

The CHAIRMAN: The language does not limit it, but that is only where the facts would support the application of the section.

Section 11 carried.

Section 12, transferred pension fund contributions to be subtracted.

Mr. IRWIN: This provides an amendment we referred to earlier in that it amends section 36. You will recall that if it were not for the amendment in clause 3 lump sums withdrawn from pension plans would be subject to tax. Section 36 of the act provides a favourable formula for computing the tax on these lump sums, and this amendment prevents an amount equal to the amount excluded from income under clause 3 from being used or being subject to this favourable rate of tax provided by section 36.

The CHAIRMAN: It is consequential on the earlier change?

Mr. IRWIN: That is right.

The CHAIRMAN: Section 12 carried.

Section 13?

Mr. IRWIN: Section 13 provides increased rates on corporations.

Senator BRUNT: There is no change up to \$25,000, is that right?

Mr. IRWIN: Not under this act.

Senator KINLEY: What do you mean by "associated corporations"?

The CHAIRMAN: It is defined in the Income Tax Act.

Senator KINLEY: Can you be a little more definite?

The CHAIRMAN: That is why we have witnesses. It is not entirely relevant, but I think the witness will give you the answer.

Mr. McENTYRE: The reduced rate of 18 per cent which applies to the first \$25,000 was so arranged that a large company could not break itself up into small companies and take advantage of that rate for more than \$25,000; and to do that it was necessary to make a definition, which in the term used is "associated corporations", so that only one of the associated group could get this beneficial tax rate; and there is a definition set out in section 39 of the Income Tax Act which describes all the various relationships which create associated companies.

Senator WALL: Would the relationships cover profits arising in the construction industry?

Mr. McENTYRE: The definition is general for all taxpayers; it is not limited to industries.

Senator McKEEN: I think you said this was to prevent a big company from breaking into small parts. How does it affect small companies which came together and did not get separated, but through allied interests became interested in the same group? Would they lost their \$25,000 deduction?

Mr. McENTYRE: As long as two taxpayers become associated within the definition of the act, then only one of them can get the reduced rate of tax, or they can divide the \$25,000 between them.

But for the total of the two companies, only \$25,000 would be subject to a reduced rate.

Senator McKEEN: Why do you suggest a breaking up, to beat the tax? You collect that extra tax from the one company?

Mr. McENTYRE: Yes.

Senator KINLEY: What if you have three companies.

Mr. McENTYRE: Associated companies means more than two—it can mean any number.

The CHAIRMAN: Shall subsections 1 and 2 carry?

Some SENATORS: Carried.

The CHAIRMAN: Subsection 3 simply prescribes rates for part of the year, where only part of the taxation year of the corporation is in the year 1959. In those circumstances it provides a method for determining the rate to be charged.

Shall subsections 3 and 4 carry?

Some SENATORS: Carried.

The CHAIRMAN: We are now at the top of page 10, section 14. This simply extends the period for giving notice.

Some SENATORS: Carried.

The CHAIRMAN: Section 15. There is a footnote there. Is there anything to add, Mr. Irwin?

Mr. IRWIN: I think not. It merely substitutes the Canadian Universities Foundation for the National Conference of Canadian Universities.

Senator BRUNT: Does one of the bodies go out of existence?

Mr. IRWIN: Yes.

Some SENATORS: Carried.

The CHAIRMAN: Section 16.

Senator MACDONALD: May we have an explanation of that section?

Mr. IRWIN: Mr. Chairman, the law provides that an individual who derives an income from a trust or an estate may claim the dividend tax credit for that proportion of income that is the same as the proportion of the estate's income from dividends to total income.

Senator BRUNT: Would you give us an example of that, in a few figures?

Mr. IRWIN: Supposing the income of an estate or trust is \$100, 25 per cent of which is from dividends of taxable Canadian corporations, and the individual derives \$4 from this estate. In those circumstances he could claim a dividend tax credit on \$1, being one-quarter, the same proportion as the dividend income of the estate. That is what the law has said.

This amendment merely continues this provision for the cases where the estate or trust derives income from another estate or trust. It goes back as many steps as you must take.

The CHAIRMAN: It goes back to the source, no matter if it has to go through a number of estates in the process.

Mr. IRWIN: That is correct.

Some SENATORS: Carried.

The CHAIRMAN: Section 17. What is the purpose of this section?

Mr. IRWIN: The purpose of this is to give the same beneficial rules to provincial life insurance companies that want to become mutual companies, as are already provided for companies under the Canadian-British Insurance Companies Act.

Senator BRUNT: It gives them the same tax benefits.

Mr. IRWIN: That is correct.

Senator PRATT: Are there many provincial life insurance companies? I thought they were mostly under federal authority.

Mr. IRWIN: I believe there are not many.

Senator PRATT: But there are some.

Mr. IRWIN: Apparently it was not anticipated that any of these would be turned into mutual companies at the time the legislation was provided under the Canadian-British Insurance Companies Act for federal companies.

The CHAIRMAN: Carried?

Some SENATORS: Carried.

The CHAIRMAN: Section 18.

Mr. IRWIN: This deals with non-resident owned investment corporations. The law at present provides that a corporation may not qualify as a non-resident owned investment corporation if more than 10 per cent of its gross revenue is derived from rents, but it was not absolutely clear that the term "rents" extended beyond rents from real estate. This amendment makes it clear that hire of chattles, or charterparty fees or remunerations are regarded the same way as rent.

Senator BRUNT: Would you interpret "remunerations"? What does it cover?

Mr. McENTYRE: "Remunerations" I would suppose would be fees for services, such as perhaps a management service or something of that nature.

Senator LEONARD: Does it modify "charterparty fees"?

Mr. McENTYRE: No.

The CHAIRMAN: Is it intended to be related to remuneration in connection with hire of chattles, or charterparty fees, or is it something completely independent.

Senator FARRIS: Surely it is confined to charterparty fees.

The CHAIRMAN: I would think so. That is why I was interested in an explanation.

Senator BRUNT: I don't think Mr. McEntyre will apply it that way.

The CHAIRMAN: I am a little fearful from what Mr. Irwin has said, that it was not his idea that it be limited in that fashion.

Senator DROUIN: The text would indicate it is so limited.

The CHAIRMAN: The *ejusdem generis* rule would apply there to "remuneration".

Senator FARRIS: I don't think we should discuss it, or they will amend it here.

Mr. McENTYRE: In section 70 for B(iii) it reads:

"Rents, hire of chattles, charterparty fees or remunerations, annuities, royalties, interest or dividends."

It seems quite clear that the remuneration must be related to charterparty fees.

The CHAIRMAN: What I am pointing out is that in the amending section you are dropping those words, "annuities, royalties, interest or dividends."

Mr. McENTYRE: Yes. We have in mind this class of corporation would ordinarily receive the majority of its income from these other sources as annuities, royalties, interest and dividends; and those are not the items which have given rise to the doubt as to what is meant by "rentals".

Senator LEONARD: Mr. Chairman, I think this should be made clear by putting a comma after "chattles", in the same way as we have in B(iii). In that way we would make it clear that "charterparty fees or remunerations" are tied together.

The CHAIRMAN: And the "or" should come out.

Mr. McENTYRE: I think that would change the sense of it, Mr. Chairman. We are dealing with three items: rents, hire of chattles, charterparty fees or remunerations. The first item should have a comma after it, the second item would not require a comma being before the last, and "charterparty fees or remuneration" is all one item.

Senator HUGESSEN: I suggest that we should insert the word "from" in two places: "From hire of chattles or from charter fees or remunerations".

Senator LEONARD: Yes. You have put the comma in the existing section.

The CHAIRMAN: Yes.

Mr. McENTYRE: The existing section contains seven or eight items, of which "charterparty fees or remunerations" comes in the middle.

The CHAIRMAN: But it follows immediately "hire of chattles" with a comma. We are just trying to make sure that it means what it says and what it is intended to mean.

Senator HUGESSEN: I suggest that it be amended to read:

"From rents, from hire of chattles, or from charterparty fees or remunerations."

That puts charterparty fees and remunerations together, which is what you want.

The CHAIRMAN: What does our law clerk have to say about that?

The LAW CLERK: I think that would be a permissible amendment, Mr. Chairman.

The CHAIRMAN: The section would then read:

"(ba) Not more than 10 per cent of its gross revenue was derived from rents, from hire of chattles, or from charterparty fees or remunerations."

Does the committee approve of that?

Some SENATORS: Carried.

Senator ASELTINE: Have the officials of the department any objection to this amendment?

The CHAIRMAN: Senator Aseltine wants to know if the officials are opposing this suggestion for clarification.

Senator BRUNT: Have you any objection, Mr. McEntyre?

Mr. McENTYRE: I have no further suggestion to make, Mr. Chairman.

Senator LEONARD: It will not make any difference so far as intent is concerned. What we are concerned with is the present wording.

The CHAIRMAN: What Mr. McEntyre has said is that the intent of what has been suggested now by way of the amendment would not change the intent which he said was the intent of this section, and it certainly clarifies it.

Senator FARRIS: This, in effect, clarifies it.

The CHAIRMAN: Yes.

Shall the section carry?

Carried.

Now, we come to section 19. Would you care to give an explanation of that, Mr. Irwin?

Senator ASELTINE: Have we time for that? I would move that that section stand and let us go on with the others.

Senator HUGESSEN: I second that motion.

The CHAIRMAN: Shall the motion carry?

Section 19 stands.

Now, we will deal with section 20.

Mr. IRWIN: This deals with registered retirement savings plan. Taxpayers have been allowed to deduct premiums paid within 60 days after the end of the year but the contract itself had to be entered into by the end of the year. This caused some confusion so the amendment is being made to permit the contract to be entered into within 60 days after the end of the year.

The CHAIRMAN: This is beneficial.

Shall the section carry?

Carried.

Subsection 2 of section 20.

There are certain changes in that.

Mr. IRWIN: Mr. Chairman, this deals with life insurance employees who are members of an employees' pension plan scheme but who also want to pay premiums under a registered retirement savings plan. The law provides that such an employee is subject to a limit of \$1,500 a year for both of them, or 10 per cent of his earned income, but it was not clear that that ceiling applied to employees of life insurance companies.

Senator ASELTINE: Why?

Mr. IRWIN: Because of the fact that life insurance companies determine their income by special rules. They do not follow the same rules for determining taxable income as other corporations follow. This amendment will merely make it clear that life insurance company employees are treated the same way as employees of other companies.

The CHAIRMAN: How could they do it differently? That is what bothers me. If the XYZ Company has a plan, and if it is a life insurance company certain rates are set and these are the contributions.

Mr. IRWIN: This does not flow from the placing of the registered retirement savings plan. It comes from the wording in section 79 (b) which defines the limit deductible, and the wording used describes an employee who is a member of a plan under which the employer claims a deduction. Those are

the words used to describe an employee's pension plan. Now, life insurance companies do not claim a deduction in computing taxable income for amounts they put into an employees' pension fund because their calculation of taxable income is under another section.

Senator HUGESSEN: Their taxable income is what they put aside for their shareholders each year?

Mr. IRWIN: The taxable income is the amount of money transferred to shareholders' account.

Senator HUGESSEN: So this amount would not come into the computation so far as income tax is concerned.

The CHAIRMAN: This is to prevent them from making an unlimited contribution.

Mr. IRWIN: It is to prevent them from taking up to \$2,500 the way self-employed persons can do.

The CHAIRMAN: Shall the section carry?

Carried.

Section 21.

Mr. IRWIN: This deals with Crown corporations. The honourable senators will recall that Crown corporations which are listed in Schedule D of the Financial Administration Act are subject to federal corporation income tax. The law also provides that the corporations carrying on operations in Ontario and Quebec receive a credit or abatement of nine percentage points, but a good many of these Crown corporations, since they are agencies of Her Majesty, may not be taxed by the provinces. Therefore there seems to be no reason to provide a tax abatement when they were not paying a provincial tax, and this withdraws a tax abatement of nine percentage points for those Crown corporations.

The CHAIRMAN: They were not attempting to take that benefit, were they?

Mr. IRWIN: I think the Auditor General may have suggested that these corporations should not be setting aside reserves for taxes which they did not have to pay.

Senator BRUNT: Do you know if Crown corporations pay over their annual profit into the Consolidated Revenue Fund?

Mr. IRWIN: I suspect this varies from corporation to corporation, but I think they do, their annual profit is to be turned over to the Consolidated Revenue Fund.

Senator BRUNT: So if they do that, it does not make any difference because if you lose it one way you make it up another.

Mr. IRWIN: Yes.

The CHAIRMAN: Shall section 21 carry?

Carried.

Section 22.

The CHAIRMAN: This is bringing up the tax rate 2 per cent in relation to that special category of public utility companies that we brought into the statutes some years ago, who paid 2 per cent under the going corporate rate. So now that corporate rate goes up 2 per cent, their rate goes up 2 per cent.

Senator BRUNT: Do all utility companies enjoy that 2 per cent advantage?

Mr. IRWIN: Those described in section 85.

The CHAIRMAN: Electric, gas and steam utilities.

Senator BRUNT: That should be amended to include nuclear companies.

The CHAIRMAN: We can throw out that suggestion and I am sure Mr. Irwin will communicate it to the minister.

Shall the section carry?

Carried.

Section 23.

Mr. IRWIN: This is the amendment that we referred to earlier dealing with reserves set up where payment has not been received in full until more than two years have elapsed. I understand it has been the practice in the past to allow reserve in these circumstances to cover all the anticipated profit, but a court decision threw some doubt on this procedure and might have had the result that the reserve could only cover that part of the profit attributable to the proceeds of sale received after the expiration of two years. This amendment will permit the continuation of past procedure.

The CHAIRMAN: Shall subparagraph 1 carry?

Carried.

Now subparagraph 2.

Mr. IRWIN: The amendment to subclause 2 is a technical one. I find it easiest to explain by an example. First of all, I might point out that the general plan in connection with these reserve provisions is that amounts deducted as reserve one year must be brought back into income the next year; but it also permits a taxpayer who is in business in one year, but in the second year was not in business, to deduct a reserve in respect of the amounts included in computing his business in the first year. Now, if in the third year he was not in business the wording of the present law might not require him to bring back into income that reserve, and this amendment is intended to correct that defect to insure that amounts deducted as reserves in computing income must be brought back into income.

The CHAIRMAN: In other words, if I once set up a reserve which I am entitled to for income tax purposes, then I must carry through annually my accounting for the income which is in that reserve until such time as I am able to write it off as a bad debt.

Mr. IRWIN: I think you would have only to bring it back into income in the year. If you are no longer in business you would not be entitled to deduct it again and it would stop at that point.

The CHAIRMAN: But it might be converted into a bad debt in that year. After all, a reserve is in respect of something owing to me, not something that I have.

Senator BRUNT: Take a reserve set up for inventory.

The CHAIRMAN: Yes. If I have to bring it into my income I should certainly have the right to write it off as a bad debt.

Mr. IRWIN: That is right.

The CHAIRMAN: Even if I am not carrying on business. But what would your practice be if I have to bring my reserve into income, would you permit me to write it off as a bad debt? Would I be permitted to write it off as a bad debt?

Senator BRUNT: Is that right, Mr. McEntyre?

Mr. MCENTYRE: I would have to look at all the sections of the act.

The CHAIRMAN: It is an important question, because if we are going to agree that you can bring a reserve into income that refers to a previous year's income, I want to know if it is a bad debt, are you going to let me write it off. It seems logical that I should be able to do so.

Mr. MCENTYRE: Mr. Chairman, it has been pointed out to me that the allowance for bad debt comes under section 11 (1) (e), which simply says that certain deductions can be made and these deductions are not tied to the business. The amendment that is before you now has to do with the income

from a business, which is sort of a little different context, so that we have to have a provision specifically to bring these reserves back where we are dealing with a business. On the other hand, to allow a bad debt we are simply referring to the income in that case, and there is no restriction whether the person is in business or not.

The CHAIRMAN: Oh, yes, but, Mr. McEntyre, here I am as a taxpayer, and I may have some income from various sources and loan some money to somebody as a personal thing, and it goes bad. Do you suggest in those circumstances I can write off the amount of the loan?

Mr. McENTYRE: Mr. Chairman, the allowance for bad debts under section 11 (1) (f) has a particular condition that the amount written off has been included in computing the income of that year or the previous year, so that unless the item was of a type that had been brought into income either previously, in the same year or a preceding year, then the question of writing off a bad debt does not arise.

The CHAIRMAN: If you compelled me by statute to bring a reserve into income, then if I brought it into income and it goes bad, I am entitled to write it off?

Mr. McENTYRE: That is right, sir.

Section 23 carried.

The CHAIRMAN: Section 24. Here we are into depreciable property again.

Mr. IRWIN: Section 24 follows from the new section that was added to the income tax last year dealing with amalgamations—section 85 I of the Income Tax Act. This section provides a number of rules for dealing with various items of the new company that has been created by the merging of two or more predecessor companies. It was pointed out that the rule enacted last year dealing with the computation of undepreciated capital cost to the new corporation of depreciable property was defective, in that it might require the deduction of the depreciation taken in respect of assets of the predecessor corporations that had been sold or scrapped, and so the old section might act to reduce the undepreciated capital cost of the assets of the new corporation to nil. This amendment is designed to correct that defect in the rule enacted last year.

Senator HUGESSEN: It is beneficial, is it?

Mr. IRWIN: We think so.

The CHAIRMAN: Well, let us assume that the sum total of the capital cost of the depreciable property that is going forward by reason of the amalgamation is, say, \$1 million from all the companies. Let us assume that there is a combined depreciation that has accumulated there of maybe \$250 thousand, and the capital cost would go forward. In the event of subsequent sale of those properties the recapture would be preserved, too, would it not? I mean, the Crown does not lose the right to recapture because an amalgamation has taken place and the depreciable property of all these companies goes into a new company?

Mr. IRWIN: That is correct.

The CHAIRMAN: Well, now, that is not the point you are trying to cover in this amendment, is it?

Mr. IRWIN: No, the defect was that the old rule said that you had to deduct all the amounts that the predecessor corporation had deducted.

The CHAIRMAN: The only way we could justify that would be if the properties came forward at the original capital cost.

Mr. McENTYRE: If those particular properties came forward.

The CHAIRMAN: Yes.

Mr. McENTYRE: But there might be some properties which had been scrapped or disposed of.

The CHAIRMAN: So, this is correcting.

Mr. McENTYRE: Yes.

The CHAIRMAN: Carried.

Senator BRUNT: Mr. Chairman, it is now 12.30. I suggest this is a good stopping place.

Senator METHOT: Mr. Chairman, would I be allowed to return for a moment to clause 18, which it was proposed to amend by the insertion of the word "from"?

The CHAIRMAN: Yes. Until the committee concludes its work, any section that has been dealt with can be re-dealt with.

Senator METHOT: I am afraid that the insertion of the word "from" may mean that 10 per cent may be allowed from rents, from hire of chattles and from charterparty fees, which would mean a total of 30 per cent.

The CHAIRMAN: No. It is 10 per cent of the gross revenue.

Senator METHOT: It may mean 10 per cent of each item.

The CHAIRMAN: No; it is 10 per cent of the gross revenue, which I take it would be all the income received by the corporation.

Senator METHOT: It may be.

The CHAIRMAN: It is not 10 per cent of the rent and 10 per cent of the hire of chattles. It is 10 per cent of the gross revenue of the corporation. Is that what is intended, Mr. McEntyre?

Mr. McENTYRE: Yes.

Senator BRUNT: If you have three different companies, one for rent, another for hire of chattles, and a third for charter fees and remuneration, you could take 10 per cent of each one.

The CHAIRMAN: No. If you have a gross revenue of \$1 million, 10 per cent of that would be \$100,000. You would have income from rents, hire of chattles, charterparties and remuneration up to \$100,000.

Senator MACDONALD: You could have 90 per cent of one of those categories.

Senator WALL: Since this section is up again for consideration, does that mean that we are in effect making it easier for these non-resident corporations to qualify for the 15 per cent rate?

The CHAIRMAN: No. It must be remembered that there are a lot of deductions that companies of this kind do not get. Mr. McEntyre, do you think there is any likely to be any confusion here?

Senator POWER: Would Mr. McEntyre please translate into French the proposed amendment with the "from" in it?

The CHAIRMAN: Is it not true that you are providing 10 per cent of the gross, overall revenue of such a company?

Mr. McENTYRE: You mean the overall revenue before any expenses?

The CHAIRMAN: Suppose 10 per cent amounts to \$100,000; then, if the sum total of revenue received from rents, from hire of chattles and from charterparties and remuneration amounts to \$90,000, the company would qualify as an n.r.o. company. If it amounted to \$101,000, you would not qualify.

Mr. McENTYRE: I think the suggestion that has been made by the honourable senator is that a company would still qualify if it had \$90,000 from rentals, and another \$90,000 from hire of chattles, and another \$90,000 from charter parties.

The CHAIRMAN: I don't know how it can do that, because it is 10 per cent of the gross revenue, which would be less than the combination of those figures.

Senator ASELTINE: You couldn't collect more than \$100,000.

The CHAIRMAN: To start out with it is fixed at 10 per cent of the gross revenue; and as soon as it becomes more than that, you lose your badge.

If we are going to have any discussion on this section—and we should be interested in clarifying it—let us delay it until later. Is it the wish of the committee that we resume tonight at 8 o'clock?

Some SENATORS: Carried.

—At 12.45 the committee adjourned until 8 p.m. this day.

The hearing resumed at 8 p.m.

Honourable Mr. Hayden in the Chair.

The CHAIRMAN: Call the meeting to order. We have got as far as Section 25.

Senator ASELTINE: Were we not dealing with 18?

The CHAIRMAN: Well, we will come back to it. We are going to come back to 19, so we might as well go through and then come back and do those two.

Senator ASELTINE: What section are we at now?

The CHAIRMAN: Section 25. I think, the last one we dealt with before we adjourned was Section 24.

Mr. Irwin, would you tell us the whys and wherefores of this section?

Mr. IRWIN: I will start out on this one. This is a relieving provision.

Senator FARRIS: Relieving to the taxpayer, I think.

The CHAIRMAN: In what sense do you use the word "relieving", Mr. Irwin, do you mean "ameliorating"?

Mr. IRWIN: The amendment deals with the right of the corporation to pay a 15 per cent tax on undistributed income accumulated since 1949 that has been matched by the payment of dividends. This particular amendment deals with the rather unusual circumstance of a corporation that is now a subsidiary controlled corporation, subsidiary to a personal corporation, but which at some previous time was not a subsidiary controlled corporation.

Perhaps I had better point out that the general rule in the Act is that a subsidiary controlled corporation may not take advantage of this matching provision, but if it is subsidiary to a personal corporation it may.

Senator MACDONALD: 100 per cent?

Mr. IRWIN: No, just a subsidiary, a controlled subsidiary. This amendment extends the right of such a corporation to make its election with respect to dividends paid when it was not a subsidiary controlled corporation.

Senator BRUNT: What about prior to 1949?

Mr. IRWIN: A corporation in order to take advantage of the right to pay a 15 per cent tax under Section 105 must deal with all its undistributed income up to the end of its 1949 taxation year.

Senator BRUNT: But do these companies have that privilege up to 1949?

The CHAIRMAN: Every company has that privilege. This is dealing with the period subsequent to 1949.

Senator BRUNT: In other words, these subsidiary companies now have that privilege back to 1949, is that right? You see, 1949 is the break-off point and you use one getting up to 1949 and another one afterwards.

Mr. IRWIN: This particular amendment deals with post-1949 accumulations, and that part of this undistributed income which is matched by ordinary dividends.

The CHAIRMAN: Can we take an illustration of that, just to work it out. Suppose you had a company that became a subsidiary in, say, 1954, and let us assume that it had had \$50,000 of undistributed income at that time, and then subsequent thereto it accumulated, say, another \$50,000. Now, how would that work out under this amendment?

Mr. IRWIN: If it were a subsidiary corporation or became a subsidiary corporation in 1954, it could not—

The CHAIRMAN: This \$50,000 that it had accumulated for that length of time would be locked in, and become a designated surplus, would it not?

Mr. IRWIN: Yes. The general rule is that a subsidiary corporation may not take advantage of this matching provision. So in your example—

The CHAIRMAN: In my example up to 1954 it was just an ordinary corporation and it had accumulated some undistributed income. In 1954 it became a subsidiary of some company, and therefore whatever undistributed income it had at that time became locked in as a designated surplus?

Mr. IRWIN: Yes, that is right.

The CHAIRMAN: Will this section carry you on from there in that case, and give you any relief?

Mr. IRWIN: I do not think this section affects that situation.

Senator BRUNT: I am just wondering, Mr. Chairman, is this going to help the Ford Motor Company?

Senator DAVIES: Wait until they get it through the Commons and we will know.

The CHAIRMAN: Make their cars move faster?

Mr. Pook, I think, may undertake an explanation of this. Would you like to try it, Mr. Pook?

Mr. POOK: Mr. Chairman, I think your example assumes that no dividends were paid out from the year 1950 up until the time it became a subsidiary controlled company?

The CHAIRMAN: That is right.

Mr. POOK: In which case the \$50,000 would be locked in. There could not be any matching.

The CHAIRMAN: Then supposing we assume that \$50,000 had been paid in dividends and there was \$50,000 of undistributed income which had not been availed of under the 15 per cent rule?

Mr. POOK: Well, the general provision for subsidiary controlled corporations is that they could pay 15 per cent tax on the amount that they could have paid on the day before they became subsidiary controlled. They still have a right to match dividends that were paid before control was acquired.

The CHAIRMAN: If you have a company that was not a subsidiary until 1954 and had paid a dividend out representing not more than half of its earnings, and it had accumulated the other half which it could have taken out on a 15 per cent payment but did not, and then 1954 comes along and it becomes a subsidiary company, in the ordinary way the undistributed income it had would be locked in?

Mr. POOK: Yes.

The CHAIRMAN: But this section then steps in and says with respect to that accumulation which could have been paid out on the basis of 15 per cent at any time, it may be paid out notwithstanding the fact that it has become a controlled subsidiary?

Mr. POOK: That is right.

Senator BRUNT: And that is the effect of the amendment, or is that not the act as it now stands?

Mr. POOK: That is under the Act as it now stands in sub-section 2(b). This section only deals with the provision when it is subsidiary to a personal corporation, and we are not concerned with this designated surplus that is locked in when the company is controlled by a personal corporation because anything the personal corporation receives is not taxed in the hands of the personal corporation, it is taxed in the hands of its shareholders.

The CHAIRMAN: Under the Act as it stands at the present time, a subsidiary controlled corporation, that is, a subsidiary personal corporation is not bound by that. Its undistributed income is not locked in in the same sense as a subsidiary controlled company. I am trying to get at what this does that is not already in the law. What more does this do? It says here in the note:

This amendment extends the right of such a corporation . . .

That is a subsidiary controlled corporation—

. . . to make such an election with respect to dividends paid when it was not a subsidiary controlled corporation.

Well, as I understand it under the law as it stands without this amendment there is the right to make such an election. Now, what more does this do?

Mr. POOK: Using your illustration you are assuming that it became subsidiary to a personal corporation in 1954?

The CHAIRMAN: Yes.

Mr. POOK: Without this section being amended it would not have this right to match the dividends that were paid prior to 1954.

The CHAIRMAN: And is that all this does?

Mr. POOK: That is all this does. It is to extend that right to it, the same right that is given to the corporation that is subsidiary to the ordinary corporation.

Senator BRUNT: Then this makes all subsidiary corporations of the same class and they all get benefits whether they are subsidiary to family corporations or private companies or anything else?

Mr. POOK: It gives both companies the right to match those dividends. The corporation already has the right to match the dividends that are paid while it is subsidiary to a personal corporation.

The CHAIRMAN: Yes, I see the difference.

Mr. BRUNT: Now, all subsidiary corporations will have the same right with respect to that 15 per cent, is that right?

The CHAIRMAN: Well, Mr. Pook was being exact, and what he says is that the subsidiary controlled company which is controlled by a company which is not a personal corporation and a subsidiary controlled company which is controlled by a personal corporation, both of them may, when this becomes law, deal on this 15 per cent basis with respect to dividends, to the matching pair of dividends accumulated before they became subsidiary. That is correct, is it not?

Mr. POOK: That is it.

The CHAIRMAN: Now, with those concluding very clear words which I added—I hope I did not confuse it too much—is there anything more in this section, Mr. Irwin, than what we have finally worked out of it?

Mr. IRWIN: I think not, sir.

The CHAIRMAN: Shall the section carry?

Some SENATORS: Carried.

The CHAIRMAN: Now, Section 26 deals with something that we brought into the statute last year in connection with amalgamations and mergers. What is this intended to cover, this particular section, Mr. Irwin?

Mr. IRWIN: This section is in addition to the other provisions in the Act imposing special taxes when corporations take certain actions to have their undistributed income pass to the shareholders in a tax free form. As you have said, this is necessary because of the section added last year dealing with amalgamations.

This section added last year permits a subsidiary controlled corporation to merge with its parent corporation and what would be regarded as designated surplus before amalgamation loses that quality after amalgamation.

The CHAIRMAN: Yes.

Mr. IRWIN: And this amendment is designed to impose a tax only in those cases where this has been done, and where the net assets of the new corporation are less than the undistributed income of the predecessor corporation.

The CHAIRMAN: See if I can understand it. If you had a vertical merger including several subsidiaries and the parent company and you merge them all so that you have one resulting corporation and the assets do not die, if you take the sum total of the undistributed income of each of those corporations before such merger and it came to the figure of \$1 million and if when you have a new corporation after the merger, its undistributed income still equals \$1 million, then there is no question of tax, is that right, so far as this section is concerned?

Mr. IRWIN: If the assets less liabilities, excluding goodwill, after the amalgamation are \$1 million, there would be no tax.

The CHAIRMAN: This is intended to cover the situation, a plan of amalgamation may have some features added to it as a result of which the shareholders somewhere en route drain off something and which might be a tax-free operation unless you brought in this section, is that right?

Mr. IRWIN: That is it, yes.

The CHAIRMAN: Is that all this section is designed to do?

Mr. IRWIN: Yes.

The CHAIRMAN: And it is assets, it is not a case of combining the undistributed income. We are talking about future assets of the resulting corporation equalling the assets of the corporations that went into that amalgamation, when no tax is attracted by this section.

Senator BRUNT: Less the liabilities in each case.

The CHAIRMAN: Well, I meant net assets.

Senator DAVIES: I am wondering how the ordinary layman is supposed to interpret this act and make out his own income tax return.

Senator BRUNT: You get a lawyer and an accountant.

Senator DAVIES: Do you not think that the income tax—

The CHAIRMAN: Senator, I was waiting for an answer to the question I put.

Senator DAVIES: If they do not know what it is all about, how do you expect anybody else to know?

The CHAIRMAN: I do not want to pass something I do not understand.

Mr. IRWIN: What the section tries to say, sir, is that the net assets of the new corporation must be at least equal to the undistributed income of the predecessor corporation.

The CHAIRMAN: Then it is not a matching of assets: it is a case that the net assets of the resulting corporation must be at least equal to the sum total of the undistributed income in the corporations that went into the amalgamation?

Mr. IRWIN: That is right.

Senator LEONARD: As you said, Mr. Chairman, no tax is attracted if those net assets are equal or more?

The CHAIRMAN: That is right, it is only if the net assets are less than the sum total of the undistributed net income in each of the companies going into the amalgamation that tax is attracted, and the tax is on the difference, is that right?

Mr. IRWIN: That is right.

Senator MACDONALD: That is where the draining off occurs.

The CHAIRMAN: Yes, and, of course, that could occur and your net assets would be less if in fact some of your undistributed income was drained off.

Any further questions you want to ask on this? Senator Davies, you had a question?

Senator DAVIES: I was wondering whether the Income Tax Department could not add on their staff a corps of advisors to straighten these things out for ordinary people who go to make out their income tax.

The CHAIRMAN: Well, I suppose they do not want to compete with private enterprise.

Any other questions on this section? Shall the section pass?

Some SENATORS: Carried.

The CHAIRMAN: When does that section come into force?

Senator BRUNT: After May 13, 1959. I do not know why that date was picked.

Mr. IRWIN: That was the date of first reading of the Income Tax Bill.

The CHAIRMAN: And I suppose they picked that date because I do not think this amending section was set out in the budget resolution, was it?

Mr. IRWIN: That is so.

The CHAIRMAN: So you picked the date on which it was first presented?

Mr. IRWIN: Yes.

The CHAIRMAN: Well, that is fair.

Section 27.

Mr. IRWIN: This subsection concerns notices of assessment and it deletes the requirement that these particular notices of assessment must be sent by registered mail. The ordinary notices of assessment are not sent by registered mail, and it seemed reasonable that these particular notices should be treated in the same way. These are notices of assessment that are sent to employers in respect of taxes withheld from their employee's remuneration and that are sent to the payers of income to non-residents.

Senator BRUNT: Now, wait a minute, are you saying the ordinary assessment notices go out in the ordinary mail? Well, they are all based on returns filed. There is no return filed for this, is there?

The CHAIRMAN: Well, there is this kind of return, that the employer has to file a return and also account and remit the amount he has withheld from the pay of each employee. He is required to do that under the statute, is that not right?

Mr. IRWIN: Yes.

The CHAIRMAN: I take it these assessments relate to the situation where all of the information has gone to the department and the department may then issue an assessment. The one thing that is not clear to me is whether they issue the assessment against the employee from whom the money has been withheld, or whether they issue it against the employer in relation to the amount of money that has been withheld?

Mr. McENTYRE: There is a little more to it than that. It may be at the end of the year when the employer files his returns showing his deductions made from his employees, he might be short of his remittance, in which case we would have to send him an assessment to collect the difference. It also happens that during the currency of the year it comes to our attention that remittances are not being sent in to us in which case we would send a man to check up and if he found the employer or employee was behind in his remittances we would immediately assess the underpayment and attempt to collect it.

The CHAIRMAN: You would assess those underpayments against the employer?

Mr. McENTYRE: Oh yes, this is the responsibility of the employer who is withholding from the salary and wages that he pays to his employees but has not sent in the money he has withheld from those wages.

The CHAIRMAN: Would you say withheld or should have withheld?

Mr. McENTYRE: Well, of course, if he has not withheld then he is subject to certain penalties.

The CHAIRMAN: Would that be assessed as well?

Mr. McENTYRE: No, if he has not withheld he is subject to the penalties, but if he has withheld and failed to remit, then he must send in the money which he withheld and he is also subject to penalties if the remittances are late.

Senator BRUNT: Would this section get rid of criminal prosecutions for the employer that just keeps the money?

Mr. McENTYRE: No, our responsibility is, naturally, to collect the money that has been withheld on account of taxes by employers and then there are penalties and offences under the act.

Senator BOUFFARD: The only thing you want is to be relieved from sending the assessment by registered mail?

Mr. McENTYRE: Actually they have not been sent by registered mail for some time, and it suddenly came to the attention of one of the officials of one of the department that contrary to the provisions dealing with regular assessments for taxes, this section requires these assessments to be sent by registered mail, and it then became a question of whether we would incur the additional expense of sending these out by registered mail or whether we would ask the Minister of Finance to recommend this amendment, and in the interests of economy we felt as most employers who had been receiving these copies had not objected to the fact they were not going by registered mail, that perhaps they would continue to accept them when the requirement had been removed from the act.

The CHAIRMAN: I think I remember when this was passed. I think the only reason for putting in "registered" in this was so as to try to get an acknowledgment, if possible, from the employer himself which would mean that you certainly had an absolute foundation to proceed upon then.

Senator BRUNT: Have any difficulties been created within the last year or so by sending them ordinary mail?

Mr. McENTYRE: No, no difficulties.

The CHAIRMAN: Any questions? Carried?

Some SENATORS: Carried.

The CHAIRMAN: Now, Section 28. This is said to be beneficial. You will notice in some cases it may work out that way and I think in some cases it will not. I do not know how they would plan it. Mr. Irwin, would you state very briefly what the purpose is?

Mr. IRWIN: All this clause does is amend the definition of death benefit. Death benefits are defined in the act to mean payments made by an employer upon the death of an employee in recognition of his service. Since these payments are in recognition of service, they are in a sense additional remuneration and so have been made subject to income tax. However, the law has contained an exemption for an amount equal to 90 days remuneration of the employee. This amendment will change that exemption to read an amount equal to the employee's remuneration for a year, or \$10,000, whichever is the lesser.

Senator BRUNT: His last year in office?

Mr. IRWIN: Yes. It increases the exemption unless 90 days remuneration is greater than \$10,000.

The CHAIRMAN: Any questions? Carried?

Some SENATORS: Carried.

The CHAIRMAN: Now, we dealt with Section 18 this morning, but there has been a request from Mr. Irwin that we have another look at it. You will recall that was the section where we added several words at the suggestion of the committee so that as amended it reads in this fashion:

Not more than 10 per cent of its gross revenue was derived from rents, from hire of chattels or from charterparty fees or remunerations.

In other words, we inserted the word "from" two times in the section so as to make it clear as to the sources of the revenue and to limit the meaning of "remunerations" if that were necessary.

Now, Mr. Irwin, have you something to say as to why we may have piled confusion upon confusion by what we did?

Mr. IRWIN: No sir, I have not. I thought perhaps the draftsman would be able to be here. I think he can be here at nine o'clock and he may have some words on it.

The CHAIRMAN: I will say Mr. Thorson who was the draftsman called me and when he called me he opened up quite a discussion on the section and the distortion of the meaning it had on the basis that we had only inserted the word "from" once and not twice. When I explained to him that we had inserted it twice he said: "There is no use my continuing this line, but it certainly makes it inelegant so far as English is concerned." I said: "I am not that much of a purist as long as the meaning is clear it can be inelegant, so what."

Whether there is the same feeling that arises out of what Senator Methot raised this morning I do not know. You will remember Senator Methot raised the question as to whether or not as amended you could have 10 per cent of your gross revenue of rents and you could have another 10 per cent from hire of chattels, another 10 per cent from charter party fees or remuneration.

Senator DAVIES: What does charter party fees mean?

The CHAIRMAN: For a vessel, boats.

Now, what I pointed out at that time, just to complete the explanation and then we can argue the point, was this, that I said the words of limitation I see in the section are these: "that not more than 10 per cent of its gross revenue." What you have to determine first is what is the gross revenue of this company. If it is \$1 million, then 10 per cent is \$100,000. Well, on the interpretation that I put on this section, I have only got \$100,000 I can deal with, and the source could be any or all of these things and if I exceed \$100,000 then I lose my standing. If I come up to \$100,000 I will keep my standing. That was the interpretation I thought it bore and I thought we were through with that, Senator Methot.

Senator METHOT: I have not changed my mind because it is an exception and we say: "Not more than 10 per cent of this gross revenue is derived from rents, and 10 per cent of its revenue was derived from hire of chattels and 10 per cent from others. Even if we take the 10 per cent as it is it is three times we take it.

The CHAIRMAN: The simple answer is this: what revenue are you talking about if you are not talking about rent from these sources? Either the rent is from those sources and you say so, or if you are going to interpret it you have to work it out that way.

Senator LEONARD: Mr. Chairman, may I throw out another suggestion. What we are concerned about is simply to tie in remunerations with charterparty fees and we could do it in another way by saying, "Gross revenue was derived from rents, charterparty fees or remuneration or hire of chattels". It is reversing the order a little different from what it is in the other subsection; that subsection has a lot of things in it, and it accomplishes the same thing by the comma in it.

The CHAIRMAN: It makes it a more thorough enumeration.

Senator LEONARD: And we could do it in the same way by putting that in between rents and hire of chattels.

The CHAIRMAN: You could start off by charterparty fees or remunerations, rents or hire of chattels. Our only concern was that we wanted to be sure that remuneration was related to charterparty fees.

Senator BRUNT: Just read it again, Mr. Chairman.

The CHAIRMAN: The way it would now read is this:

"18 (ba) not more than 10 per cent of its gross revenue was derived from charterparty fees, or remunerations, rents or hire of chattels."

Senator BRUNT: Will that suit you, Mr. McEntyre?

Mr. McENTYRE: I have no further suggestions to make, Mr. Chairman.

Senator BRUNT: Would you go along with that one?

Senator MACDONALD: Mr. Chairman, are you not putting a comma after rents?

The CHAIRMAN: We say from charterparty fees or remunerations, rents no comma or hire of chattels.

Senator MACDONALD: This has yet to go to the House of Commons. We will have to explain why we are doing this.

The CHAIRMAN: Well, let us put it on the record: The reason we have done it was because a number of senators were concerned that the word "remunerations" at the end of this list was riding free there and might have a meaning other than tied into charterparty fees or charterparty remunerations.

Senator THORVALDSON: Could anyone suggest what other meaning it could possibly have?

Senator LEONARD: It might mean remunerations by itself.

Senator THORVALDSON: Remunerations is a very very general word and surely it is limited by the words just ahead of it.

The CHAIRMAN: I don't know. There were some doubts in the minds of some of the senators and if this change satisfies them and does not disturb the intent of the bill let us put it in.

Senator KINLEY: Remunerations is a general term. It is remunerations from chaterparty.

The CHAIRMAN: It may be a general term here.

Senator THORVALDSON: I don't think it matters a great deal.

Senator BRUNT: If we can do anything to clear up the meaning of the section let us do so.

Senator WALL: Mr. Chairman, in this section as it reads now do we not mean gross revenue from rents, hire of chattels and charterparty fees or remunerations?

Senator ASELTINE: I would leave it the way it is, Mr. Chairman.

The CHAIRMAN: Have we reached any finality on this? I have repeated the change to the committee.

Senator FARRIS: I move that we leave it the way it is.

Senator BRUNT: What is your last suggested change, Mr. Chairman?

The CHAIRMAN: The last suggested change was that we reverse the order and say, ". . . was derived from charterparty fees or remunerations, rents or hire of chattels." That was the last suggestion.

Senator BRUNT: That makes it much clearer.

Senator MONETTE: Why is it necessary to change this, Mr. Chairman?

The CHAIRMAN: Only 10 per cent of the gross revenue may come from one item or all of these. It was the concern of the committee that the word "remunerations", being a general word, might take on a general meaning instead of being limited to charterparty remunerations. That was the real question.

Senator MONETTE: Will the word "either" be sufficient or the word "and" as suggested.

The CHAIRMAN: What Mr. McEntyre is concerned about now is that if we shift the position of rents whether we are not putting it so close to hire of chattels that rents would take on the nature of hire of chattels.

Senator MACDONALD: The fact that you are relating charterparty fees to remunerations by the word "or" you can do the same thing by relating rents or hire of chattels, because in your suggestion of charterparty fees or remunerations you have no comma after the word "or". Similarly, in rents or hire of chattels, you have no comma after "or", which seems to me would be to relate rents and hire of chattels. That is the seult of putting charterparty fees or remunerations without a comma.

The CHAIRMAN: I think you could accomplish the same result by putting the word "charterparty" before remunerations.

Senator MACDONALD: I would leave it the way it is.

Senator BRUNT: There has been a suggestion made that if we leave the section the way it is and add after the word "or" before remunerations, add two words so that it will read, "other charterparty remunerations."

The CHAIRMAN: I had suggested repeating the word "charterparty" before remunerations.

Senator BRUNT: That makes it a lot clearer. Or add the words, "or charterparty". That would leave no doubt about it.

Senator FARRIS: Mr. Chairman, a lot of people would like to vote on it the way it is. How would you arrive at an opportunity to do that? I am asking that question respectfully.

The CHAIRMAN: I think I did say I will put the section in a moment and those who want it in its present form will vote for it. If we make a change in the language of this section 18 we have to remember that earlier in the section, as it is now, similar language occurs.

Senator LEONARD: But there is no confusion in the other section, because of the commas. It is put in clearly by itself as a phrase, separate from "chattels, charterparty fees or remunerations, annuities, royalties, interest or dividends." So that there is no confusion whatever in the other section.

The CHAIRMAN: No; in section 70(4)(b)(iii), it says this is income from "rents, hire of chattels, charterparty fees or remunerations."

Senator LEONARD: That is right, and that is a phrase by itself as distinct from all the other phrases, so it is perfectly clear that that "remuneration" ties in with "charterparty".

The CHAIRMAN: Well, the only way would be to repeat "charterparty" before "remuneration". Let us settle this. First of all, I have been brought to task from the senior senator from Vancouver saying that some people want to vote on the section as it is.

Senator LEONARD: At the moment the committee has voted for a change in it.

The CHAIRMAN: The committee has made several attempts at recasting this, and which one is the latest I am not sure at the moment; I would have to study Hansard after the record is complete. Surely we can make a short-cut. As a suggestion, how many members of the committee feel the word "charterparty" should be repeated in front of "remuneration"? That suggestion has been made. You have "charterparty fees", and then the suggestion is that you say "or charterparty remunerations".

Senator LEONARD: That is what it is intended to be, is it not?

The CHAIRMAN: Yes. Those who feel that clarification should be made, please indicate by raising your hands? In favour, 13. Now, those who feel that it should not be made? Opposed, 8. Well, the majority of the committee feel that that clarification should be made.

Senator McKEEN: Is that a big enough majority?

Senator KINLEY: Did the chairman vote?

The CHAIRMAN: No, I did not. Under our rules in the Senate the chairman does not have a vote as chairman except as a member of the committee. In a tie vote, whatever you are voting for is lost.

Senator MACDONALD: That did not prevent you from voting.

The CHAIRMAN: No, that is right. I had a very strong view.

Now, so far as this section is concerned, is it the wish of the committee that we amend section 18 so that it read in the manner now expressed?

Some SENATORS: Carried.

The CHAIRMAN: Now we come to section 19, which we passed over this morning. This is a section about which you will recall your chairman, and Senator Hugessen, had some things to say, when the matter was before us on second reading. The purport of section 19 is to render inapplicable section 71 of the bill so far as any company from April 10 being able to qualify as a foreign business corporation. It preserves the ones who have been qualified up to that moment; but if they make a false step so that they cease at any time to be a foreign corporation they can never thereafter recapture their position. That is the effect. Is there any discussion on this section? Would you care to give us one good reason why we should pass this section, Mr. Irwin?

Senator THORVALDSON: Before Mr. Irwin answers, may I ask if you are correct, Mr. Chairman, in using the term "false step".

The CHAIRMAN: What I mean by that is this, that if at the beginning of January I was and had been for some years before that a foreign business corporation, and if in a year from now I did business in such a way that I ceased to qualify, I could never in a subsequent year requalify.

Senator THORVALDSON: I think that is a more accurate way to put it.

The CHAIRMAN: I did not realize I was going to be subjected to this purism this evening.

Senator POULIOT: Mr. Chairman, I wonder if the department has figured out approximately the revenue to be derived from each one of these corporations?

The CHAIRMAN: We still have this one section to deal with. Could I get the answer to your question after we have dealt with this section?

Senator POULIOT: Certainly.

The CHAIRMAN: Now, will you give us a reason, Mr. Irwin, why we should pass section 19?

Mr. IRWIN: I will not attempt, Mr. Chairman, to state Government policy or argue the case for or against this, but perhaps I could point out that the Minister of Finance pointed out in the house that since all corporations that qualified for the 1958 taxation year or were carrying on business as foreign business corporations before the budget announcement may continue to qualify, the amendment takes nothing away from existing corporations. The point at issue, therefore, is whether the formation of new foreign business corporations would benefit Canada or whether such new corporations would merely be taking advantage of a loophole and creating an inequitable feature in the tax structure. The Minister stated that the right to qualify as a foreign corporation under the act in its present form can be used as a means of maintaining in Canada a tax haven or as a means of avoidance of tax.

Perhaps, Mr. Chairman, you would permit me to quote directly from what the minister said, as appears at page 3304 of the Commons Hansard, on May 4:

We are asking the committee for that reason to close the door at that point because there is a very serious question as to whether any more foreign business corporations are going to be of any advantage to Canada anyway.

He went on to say, a little farther down the page:

We therefore think this situation is one that calls for some review and we propose that no more corporations not yet entitled to qualify as foreign business corporations should be in a position to do so hereafter until at least this whole situation has been carefully reviewed.

The CHAIRMAN: Well, now let us start the questioning. The minister also mentioned, when he was pressed in the Commons, two what he called "loopholes". Is that not correct, Mr. Irwin?

Mr. IRWIN: He gave one.

The CHAIRMAN: He gave two examples, I think. In both illustrations he gave, the companies which he started off by describing as foreign business corporations were not foreign business corporations. They could not be.

Senator THORVALDSON: You are just giving an opinion, Mr. Chairman.

The CHAIRMAN: All I can say, Senator Thorvaldson, unless I misunderstood you in the Senate, is that when I expressed that opinion in regard to those two illustrations you agreed with my opinion in law. That is in Hansard.

Senator THORVALDSON: I do not think I did. I think we are here to discuss the merits without coming to conclusions too early. As I have said time after time, I think the minister or the department should have an opportunity of justifying their stand on this thing, if they can do so, and then this committee might see fit to accept that position. If they are not able to justify it then we may well decide to disagree with the section, but I do not think that these

gentlemen should have an opportunity of beginning afresh and justifying the section. That is the position I have taken...

The CHAIRMAN: I just want to clarify the situation. Mr. Irwin, if I said anything that indicated to you that I was attempting to cut off any further explanation that you wished to make then I will say I did not so intend. You have the floor to give the fullest possible explanation of this section, and Mr. McEntyre has it also, and if there are any other witnesses from the department we want to hear from them as well if they have anything to say.

Senator MACDONALD: I would not think anybody else is under the impression that you were trying to cut off any explanation that the departmental officials would give. I agree fully with the view that the departmental officials should be given an opportunity of justifying their position, but I think Senator Thorvaldson misunderstood. They should have an opportunity to explain their position to us, and I do not think the chairman attempted to stop that in any way.

Senator BRUNT: Mr. Irwin, would you read that part of Mr. Fleming's speech in the other place where he referred to a tax haven and loopholes?

Mr. IRWIN: Yes. These references occur in a number of places, but at page 3303 of Hansard of May 4, Mr. Fleming is reported as saying:

I say that under the terms of the present act there is a possibility that it can be used as a tax haven with no benefit to Canada, and it may also be used for tax avoidance.

Senator BRUNT: Yes. Can you give us some examples?

Mr. IRWIN: Perhaps Mr. McEntyre, or one of the people from the department who are accustomed to seeing these cases, can. I would not undertake to give examples. I do not see tax returns.

Senator MACDONALD: Mr. Chairman, for the benefit, I am sure, of a number of members of the committee, could this section be explained? Just what is the arrangement in the setting up of these companies, and what benefits do they get from it? It seems to me we are starting right in the middle of this problem instead of starting at the beginning so that we all have a clear picture of it.

The CHAIRMAN: The witnesses have the floor.

Mr. McENTYRE: Mr. Chairman, this section, which is Section 71 of the present act and which was originally Section 4(k) of the Income War Tax Act, I understand was added to the Income War Tax Act in the very early days. At that time there were certain Canadian corporations, particularly Brazilian Traction, Mexican Light, Heat and Power and Barcelona Light and Power, which had been incorporated and were doing business before there was income tax in Canada. Although the record of the passage of the original Section 4(k) into the act is rather hazy by a reference to Hansard it can only be presumed that as these companies were carrying on their business entirely outside of Canada it seemed reasonable to the Minister of Finance of the day that, perhaps, they should not be subject to income tax. So Section 4(k) provided very much the same as the present Section 71 does, that where the business operations of the taxpayer were of an industrial, mining, commercial, public utility or public service nature and were carried on entirely outside Canada, it would then qualify as a foreign business corporation, and on filing a return and the payment of a nominal filing fee it would be exempt from tax.

Now, in the course of the administration of this section in 1955 it was discovered that non-resident persons could take advantage of the Canadian tax treaties with foreign countries in connection with shipping, and an amend-

ment was added to the foreign business corporation section at that time, which is paragraph (d) of Subsection (2) which said that a foreign business corporation could not derive more than 10 per cent of its gross revenue from the leasing or operation by it of a ship or aircraft.

What was happening was that foreign owners of ships would incorporate a Canadian corporation, would transfer the ownership of the ship to this Canadian corporation, would qualify the corporation as a foreign business corporation exempt from Canadian tax, and then sail the ship in such a way that it never came to Canada so that it could never be said to carry on its activities in Canada, and yet when it called at foreign ports in countries which had tax agreements with Canada which said that the country of residence would have the sole right of assessing tax, they would escape tax in those countries as well. So, in effect, they were carrying on a shipping company exempt from income tax either in Canada or in any of the countries with which Canada had tax conventions.

Senator BRUNT: But that was blocked in 1955.

Mr. McENTYRE: Yes.

Senator KINLEY: Where would they register the ship? In a foreign port?

Mr. McENTYRE: Under the tax convention the place of registration is not important. It is the place of residence of the owner or operator.

Now, Canada has also other provisions in its tax conventions, namely, that a salesman from Canada can be sent to these countries and as long as an office is not set up and as long as the salesman does not have a stock of goods, or the power to contract, he can call on the customers in those countries and offer goods for sale without rendering his employer subject to tax in those countries.

Similarly, Canadian corporations which want a source of raw materials can send buyers to these foreign countries, and as long as they do not open up an office their buyers can go around and look for the materials they need—perhaps they are supplies they need for their department stores, or raw materials that they need for their manufacturing—and the fact that these buyers are in these countries does not render the employer subject to income tax.

Now, the Case that Mr. Fleming mentioned was the case of a foreign business corporation that was going to purchase the products of a Canadian producer and sell them in a foreign country where there was a large demand for this particular product. Naturally, once a foreign business corporation, or a Canadian corporation, had been set up it had to be very careful that these goods were not purchased in Canada. But whether it was arranged or it just happened it was possible, because the Canadian producer had an office outside of Canada, the purchase of the Canadian Company's goods could be negotiated at its office outside of Canada, delivery of the goods could be taken outside of Canada, and payment for the goods could be made outside of Canada, and then these goods could be sold in the foreign country and the profit made from that transaction would escape tax in Canada, and because of these various tax conventions tax would also be evaded in those foreign countries, so that the whole profit from this transaction would escape corporation income tax.

The CHAIRMAN: Can we interject something there, Mr. McEntyre? If you had a foreign business corporation that was purchasing Canadian goods, say, in the United States from a Canadian seller and then was using those goods somewhere else outside of Canada, the situation would be exactly the same as that of any company incorporated anywhere outside of Canada making a purchase of those Canadian goods abroad. So far as the seller of those goods was

concerned Canada got a tax on the profit. On any profit from the sale of these goods to this buyer outside of Canada, if it resulted in a profit to the Canadian company, Canada got a tax.

Mr. McENTYRE: That's right.

Senator BRUNT: They tax the producer of the goods.

The CHAIRMAN: What I am trying to get at is if you can have a Canadian foreign business corporation that did no business in Canada but bought Canadian goods in the United States, well, you could have an American company that would do the same thing or a Brazilian or English company. The question of whether or not that Canadian company was doing business in the United States depends upon the terms of the tax convention between Canada and the United States. If it was able to do business without having a permanent establishment and without accepting orders in the United States, and they had to be sent somewhere else to be accepted, then it wasn't subject to tax in the United States. But it is rather novel for me that we are concerned about taxes in the United States as well as taxes in Canada. Obviously such a company not doing business in Canada would qualify for a foreign business corporation and would not be taxed in Canada.

Senator THORVALDSON: May I reply to that, Mr. Chairman? I think Mr. McEntyre's point in this whole thing is that in the example you gave just now the person who is buying these goods in the United States or any other country, except for the fact he could do business here as a foreign business corporation, he would be paying taxes in the United States or such other country. Is that not your point, Mr. McEntyre?

Mr. McENTYRE: That is right.

Senator THORVALDSON: That is the whole thing. As I understand Mr. McEntyre, you can have your sales agency in the United States but because you are dealing out of this foreign company in Canada you pay tax nowhere, and isn't that the very problem you are trying to solve?

The CHAIRMAN: The Canadian company, in order to avoid tax in the United States under this convention must not have a permanent establishment or must not have a salesman or buyers in the United States who can accept orders; in other words, who can make contracts. Now, if they do those things in the United States they are subject to tax in the United States.

Senator THORVALDSON: I suggest that we hear Mr. McEntyre on that.

Mr. McENTYRE: The tax conventions provide that a resident or resident company of one country can send buyers into another country for the purpose of buying goods and, as long as there is no office established for that purpose, then the fact of buying the goods does not render the company subject to tax in that other country.

The CHAIRMAN: That is correct.

Mr. McENTYRE: It is a little bit different on the other side when it comes to selling goods in a foreign country. You can have a salesman call on customers as long as he has no office and there is no permanent establishment to which the profit would attach on which there would be a tax. Also, this salesman must not have a stock of goods from which he can deliver to the customers he calls on, and he must not have power to contract. In other words, he cannot make a firm sale to a customer on whom he calls. However, he may offer goods for sale and if he gets an order he can say, "Well, I will refer that back to my head office in Canada and if they are satisfied with the price of the credit terms, and so on, and accept it, that is all right." In that case the salesman does not have power to contract.

The CHAIRMAN: Mr. McEntyre, interrupting there just for a moment, in all these business operations which are done in Canada, the company is deemed to be carrying on business in Canada.

Mr. McENTYRE: Obviously this company, if it wants to remain qualified as a foreign business corporation, would take care of that.

The CHAIRMAN: That is right.

Mr. McENTYRE: Under the terms of the section the company has the right to have its management in Canada, and there is some question as to just how far management goes.

Whether "management" means simply that you have a director's meeting, and nothing more, or have your executive offices in Canada, and perhaps do your bookkeeping in Canada, collect your accounts, instruct subordinates in foreign countries from Canada, the word is not easy of definition. In my experience I have had a great number of suggestions made to me as to just what was the meaning of "management", and I must admit that I have not been able to form a firm opinion myself.

The CHAIRMAN: Mr. McEntyre, I think I am one who has discussed the section with you at times, and the meaning of the word "management". The instructions we got were along this line: if you did your housekeeping, as it is called, in Canada, you were carrying on business. "Housekeeping" means the collecting of accounts, banking in Canada, processing individual transactions, carrying books of account and so on. If you did those things in Canada, you were doing business, and those directions have been followed for fear of losing the status. "Management" was held to be a director's meeting. But if you actually participated from Canada in giving directions in connection with the conduct of business, other than the directors settling policy, then you were doing business in Canada. That is the way foreign business corporations that I have been identified with have been carrying on. After discussing the matter in the department, that was the interpretation of it, and I am not quarrelling with it. I think it is good law; I don't think "management" should have the wider meaning.

Senator FARRIS: What is your objection to the section, Mr. Chairman?

The CHAIRMAN: My objection is that the law should stay as it is. I think there is a very useful place for foreign business corporations. I have seen them over practically all the years I have been practising law. In my experience I have seen funds coming into Canada and deposited here in substantial amounts where they remain for a while until disbursed in dividends, and when disbursed in dividends the Government gets 10 or 15 per cent tax, depending on the shareholders.

I gave an incident the other day in the Senate about a mining company which carried on its mining operations entirely outside Canada. I do not want to identify the company, but I may say it happened to be in a territory where there was prestige attaching to Canadian incorporation, that was not available to a local incorporation. There were some benefits to Canada in having that operation, because money did come back here.

We have had since the war many discussions with people from various countries of the world who wanted to set up manufacturing operations in certain countries, but they did not want to leave their money there. They wanted to bring their money home to Canada, as a safe place.

Senator FARRIS: What would this section do to your illustration?

The CHAIRMAN: Well it did this: a couple of days after I spoke in the Senate I got a bundle of literature from Bermuda saying that they were available for these companies if Canada did not want them any longer. They think there is some advantage in having that type of company operation. These companies

do spend money in the country; they do their banking in the country, and the lawyers and accountants get some business.

Senator THORVALDSON: Mr. Chairman, may I say this, since you are arguing the case against the section, that I agree with everything you have said in favour of these companies. I think probably they have been a good thing for the country, and a lot of companies have been incorporated under the 4(k) section, such as Brazilian Traction and Barcelona. But I don't think that is the issue these gentlemen are discussing, whether these companies have been a good or bad thing. I think the whole issue is they are trying to indicate that if there has been tax avoidance or evasion resulting from the present section, then that should be fully investigated by the Government of Canada; and until that is fully investigated, there should be no more of these companies allowed to become incorporated.

Senator FARRIS: Does this section say anything about such an investigation?

Senator THORVALDSON: No, but that is what the Minister said in the house, and these men are able to show there was tax evasion. I think that is the whole issue on this section.

The CHAIRMAN: The Minister himself in the House of Commons, when asked what about foreign corporations incorporated in Canada, said this:

I am not suggesting for a minute any Canadian corporation that has qualified as a foreign business corporation has abused the law in any respect whatever . . .

Senator HUGESSEN: I must say I am not very much impressed. We have had this section in the Income Tax Act for a number of years, and we are told that as yet there has been no tax evasion, but it is possible there might be in the future. I don't think that is a basis for changing the act at this time. If we find that there is later on an actual tax evasion, then we can deal with it by changing the act.

The Chairman gave an example of the sort of case in which a foreign business corporation can be set up. I would like to give another example from my own experience.

Two gentlemen, mining engineers, one an American and the other a Canadian, men of considerable wealth, owned a mine in central America. They wanted to carry on that operation in corporate form, and they chose a Canadian company, and incorporated that Canadian company to carry on this mining operation which, I think, was in the State of Salvador. The reason they wanted a Canadian corporation was very simple: they were accustomed to the Canadian form of corporate organization; they knew the Canadian Companies Act; they knew if they confined their business operations to the State of Salvador they would have only a minimum income tax to pay in Canada, and of course, on the other hand, in the place where the operation was carried on, Salvador, they were subject to every tax which that State saw fit to impose upon them.

Now that is an example where it is rather general. It has been rather general in the use of this section where parties for some reason or other want to use a Canadian corporate form for a Canadian company and carry on their business elsewhere. I cannot see where there is any question of an evasion or tax avoidance in that.

Senator FARRIS: What is your complaint?

Senator HUGESSEN: The only complaint I have at the present time is that in the future that cannot be done, that sort of company cannot be set up.

Senator LEONARD: Mr. McEntyre, what is the amount, approximately, that is collected from these companies through the 5 per cent or the 15 per cent tax—those would be the more important items. I have another question: Have

any representations been received from other jurisdictions suggesting that this section is used as a tax haven as against their interest?

Mr. McENTYRE: I do not think we have a breakdown, as far as I know, of the non-resident withholding tax that applies to foreign business corporations as against that which applies to all corporations paying dividends to non-residents, but we have made a study of 68 corporations that we knew about that had been incorporated in the four years 1952, 1953, 1954, 1955, and we have found that none of those had paid dividends on which the withholding tax applied up to the end of 1956. Now we found 68 corporations and there may have been some that we missed so that it is hard to say categorically that none of the foreign business corporations incorporated in that way have paid dividends on which withholding tax applied up to the end of 1956. Now, of this same group that was analysed those that paid foreign income tax other than withholding tax on investment income and those who paid income tax anywhere is as follows:

In 1952 we have a record of 14 business corporations incorporated of which 6 paid a corporation income tax in the place where they did business and 4 of them paid no income tax either in the place where they did their business or, naturally, in Canada, because here they qualified as a foreign business corporation.

The CHAIRMAN: Can you say to what extent any of these companies may have enjoyed a tax holiday in the countries in which they were operating?

Mr. McENTYRE: Several of those in the group I mentioned which reported no income tax paid are new foreign mining ventures which perhaps in the country in which they do business may be entitled to an exemption such as we have in our own act.

The CHAIRMAN: In some of those countries they get holidays ranging from five to ten years.

Senator HUGESSEN: You are not suggesting that any of these companies are evading or avoiding payment of income tax in the countries in which they do business?

Mr. McENTYRE: I think that evading and avoiding the payment of tax is something of a moral issue. I always look on the evading of payment as being fraudulent. I do not think these companies make any bones about what they are doing. They see the provision in the act and if they take advantage of it I won't be the one to throw stones.

Senator FARRIS: Is the fact that they do not pay taxes a reason that you should get them here?

Mr. McENTYRE: If they avoid paying taxes somewhere else because of tax treaties we have made with foreign countries on the basis we will tax our own and they will tax their own and there will be reciprocal exemption, it does not seem right that these people who are not paying Canadian taxes should avoid paying a tax in the foreign countries.

Senator FARRIS: Perhaps the omission is in the other country.

The CHAIRMAN: We have been told that there has been no abuse to date.

Senator THORVALDSON: Mr. McEntyre, would you like to say something about the other 68 companies. You mentioned 14 out of 68.

Mr. McENTYRE: In 1953 we found 16 companies, of which one paid income tax in the country in which it carried on business and 8 paid no income tax.

In 1954 there were 23, of which 7 had paid taxes abroad and 7 paid no income tax.

In 1955 there were 15 and only one paid an income tax in the country in which it carried on business, and 9 paid no income tax.

That left 14 companies which had no income tax and 11 companies on which we were not able to get any up-to-date information.

Senator BRUNT: Have you any breakdown on the classification of companies, whether mining, railway, manufacturing?

Mr. McENTYRE: We do know that of the 68, 10 are purchasing goods in the United States and selling it in foreign countries. Naturally, as I explained, because of the treaties, they are able to escape the tax in some of the countries in which they do business. In three of these companies there is an accumulation of surplus of about \$40 million at the end of 1956 and as I said no dividends have been paid which would be subject to the withholding tax on Canadian dividends.

Senator DAVIES: Is that money in Canada?

Mr. McENTYRE: That money need not necessarily be in Canada because these companies can keep their bank accounts where they like. It may be in Canada or in a foreign bank.

Senator BRUNT: But if they paid a dividend then they would become liable.

Senator LEONARD: Do I gather that the amount now received by way of 5 per cent or 15 per cent tax on dividends from foreign corporations is a negligible amount?

Mr. McENTYRE: I do not think we could say it is a negligible amount.

Senator LEONARD: Have you any figures on it?

Senator BRUNT: I have some figures here on Brazilian Traction. When they paid a dividend of \$1 a share, they paid on 8 million shares that were owned outside of Canada, and each year they paid a dividend of \$1 a year they paid to the Department of National Revenue \$1,200,000.

Mr. McENTYRE: I note what Senator Hugessen said about the company he incorporated for these two mining people. But in the majority of foreign countries when people go out to do business they like to incorporate a local company at least to do the activities of those companies, and under those circumstances the dividends that are brought back from subsidiaries which are 25 per cent controlled by the parent company are not taken into account in establishing the profits of the company for Canadian taxes. That will cover most of the existing situations where the foreign business corporation vehicle is used. There is still that vacant spot where it does not suit the people who are going to carry on this business to incorporate a local company for that purpose.

Senator PRATT: If they were applying to set up now, would they be able to do so under present conditions? You could not have a duplication of the situation if this act was passed, could you?

Senator BRUNT: That is right.

Senator PRATT: Unless there is some actual revision of taxes in Canada, this thing as we have it today is a menace and is costing Canada something. I don't see for the life of me why we should bring in an enactment which is going to prevent an operation of this kind. There is a tremendous interlocking of interest. As it is, right now Brazilian Traction is bringing in these dividends.

The CHAIRMAN: In addition to that there was an amendment put into the section some years ago so that Brazilian Traction may buy their supplies in Canada for use in their operations outside of Canada, and they don't lose their status. So that amendment, of course, is a direct benefit. I would suggest that if the section remained in it would permit such companies to do their housekeeping in Canada, and it would mean the spending of more money in Canada, and they would have an accounting staff set up here.

Senator BRUNT: Brazilian Traction now have approximately 300 employees in this country.

Senator WALL: May I ask a question arising out of the number of companies who pay no tax here and no tax someplace else? Is this annual license fee of \$100 incorporated in our tax agreements as a tax?

Mr. McENTYRE: The provision in our tax agreements is not that these companies should pay tax to Canada in order to get the benefit of the tax agreement. It is simply that they are resident in Canada, and the test of residence under the common law rule is management and control, so that once there is management and control of a company in Canada that company is considered to be resident and a taxpayer in Canada, and gets the benefit of the tax treaties which Canada has negotiated with these foreign countries. So we have the situation where you have a company incorporated in Canada, managed and controlled in Canada, but all its business activities with the exception of management are carried on outside of Canada, getting the advantage of these tax treaties.

Senator BRUNT: There is one word I would like to add, and I hope I am finished. I cannot understand why the policy of this country is to restrict these foreign corporations when in other countries you find this policy being expanded. Two years ago the United Kingdom introduced the overseas trade corporation into the Old Country's tax law which enabled British companies to operate abroad tax free. Now, the country to the south this year has introduced a bill known as the Fox Bill to establish a special category of corporation called foreign business corporation which may operate abroad on a tax free basis until foreign gleanings are brought home. Now, here we have two great countries extending this principle.

Mr. IRWIN: The U.K. does not have a provision, to the best of my knowledge, similar to our section 28 (1) (d), which permits dividends to be brought home tax free from subsidiaries abroad where there is 25 per cent ownership. Therefore to that extent the U.K. is, if you like, catching up to what Canada has had for a number of years, although they have followed a course in doing so somewhat different from our section 28 (1) (d).

The CHAIRMAN: May I point out that the difference in the U.K. is that up until this recent statute was brought in, if you had a parent company in England and an operating subsidiary abroad, and management and direction was given to the operating subsidiary abroad by the company in the U.K., then whether the profits were brought home to England or not physically as a dividend, the English company was taxed on the profits, because management was given in England. They found that a great many parent companies with large operations outside of the U.K. decided it was too great a penalty and they started moving out; and then you had this section brought in. It is not as good as the provision we have.

Senator BRUNT: But it is an extension.

The CHAIRMAN: It is an extension and a recognition to encourage the head office, at whatever expense is involved, to stay in England instead of moving out, and saying that those profits are not brought home for purposes of tax until they physically come home by way of dividends. It does not go as far as ours, but they are starting to recognize the principle.

Mr. IRWIN: The proposal in the United States, as I understand it, amounts to no more than a tax postponement. In the United States a company that is incorporated in the United States may not move out of the United States without doing certain things that gives the tax collector a chance to examine its affairs. This is not so in Canada where the basis is residence which can be changed. The United States proposal is no more than a tax postponement. I might also

point out that the United States does not have the tax freedom for dividends brought from subsidiaries abroad which we find in Canada.

The CHAIRMAN: They have a system of tax credits which runs very well, where they can select the year, and at the least cost bring home dividends from operations abroad. How it works, I do not know, except that they say it is very good.

Mr. IRWIN: But unlike that system we have in Canada complete freedom for these dividends brought home from subsidiaries abroad in which the parent has 25 per cent ownership. I make the suggestion that this provision goes a long way towards enabling new companies, with which we are concerned, to continue to come to Canada and set up in Canada and carry on operations abroad instead of relying upon the foreign business corporation provision.

The CHAIRMAN: Except that it forces two companies. There are a lot of operations where they prefer to have just the one company.

Senator THORVALDSON: Mr. Chairman, may I ask Mr. Irwin a question about Brazilian Traction? Supposing Brazilian Traction did not for some reason or other qualify as a foreign business corporation, would there be any change in its status in Canada, considering the fact that they can bring in dividends now, as we know they can? Would there be any difference to Brazilian Traction or similar corporations?

The CHAIRMAN: There would be no difference under the change in the law. You are not proposing—

Senator THORVALDSON: No. Even though they were disqualified as foreign business corporations, which no one has suggested, I am asking either Mr. Irwin or Mr. McEntyre whether there would be any prejudice to Brazilian Traction.

Senator BRUNT: In other words, if Brazilian Traction was a Canadian corporation with its head office in Canada?

Senator METHOT: We all understand there is a change in the law and a tax cannot be collected under the new law that cannot be collected under the old. There is no question about that. The question is whether we should collect it, or not. Mr. McEntyre said we should collect it because those companies benefit from the fact that we have a treaty with another country where they are exempt. So they are exempt by treaty in the other country, and they are exempt in Canada as a result of the law as it is.

The CHAIRMAN: Senator, I do not think Mr. McEntyre's evidence went so far as to say these companies are escaping tax abroad.

Senator METHOT: He did not state it—

The CHAIRMAN: Some of them may benefit. There may be some American companies which benefit in Canada. That is a question I was coming to.

Senator FARRIS: Is the fact that the company does not pay tax elsewhere a reason why we should soak them here?

Senator BRUNT: That is a very simple question.

The CHAIRMAN: Gentlemen, do you think we have exhausted it now so that we may give consideration to the section?

Senator ASELTINE: Have the witnesses any other examples or reasons to give?

Mr. McENTYRE: Perhaps I might say, Mr. Chairman, there has been some suggestion that Canada received by way of the withholding tax some revenue when dividends are declared by these foreign business corporations, and it might be interesting to note that if before declaring dividends and distributing the accumulated surplus of these foreign business corporations they move the management and control out of Canada so that they no longer are residents of Canada at the time the dividends are declared then the liability for this non-

resident withholding tax disappears. In the last few years there have been several companies that have moved out of Canada with an accumulated surplus on hand which, in the ordinary course of things, it might have been anticipated would yield withholding tax, and because of the movement of the management and control out of Canada that accumulated surplus never became subject to the withholding tax.

Senator BRUNT: Surely that is not very inequitable, is it? The money was all made out of Canada, they stored it here for a little while, and then took it out of Canada.

Senator THORVALDSON: Can you give any figures of the amounts that have been moved out of Canada in that way?

Mr. McENTYRE: Since 1955 there have been four corporations which moved out of Canada, and at the time of the move they had over \$400 million of accumulated surplus.

Senator McKEEN: Does this act prevent them from moving out of Canada?

The CHAIRMAN: No.

Senator DAVIES: Under this act would Canada benefit at all if this amendment had been in the act at the time that money was moved out?

The CHAIRMAN: No.

Senator BOUFFARD: If it was forbidden to incorporate these companies then Canada will not have any benefit.

Mr. McENTYRE: Mr. Chairman, the management and control of a company is something separate and apart from the incorporation of a company. A company can be incorporated in one jurisdiction and have its management and control in another jurisdiction. We had an example of that in the case of B. C. Electric which was incorporated in the United Kingdom and in regard to which, I think, the Supreme Court of Canada or the Privy Council decided it was resident in Canada because its management and control was in Canada. So, the fact that these companies are incorporated in Canada does not necessarily mean they are resident in Canada, because if the management and control are elsewhere than in Canada then they are no longer Canadian.

Senator BOUFFARD: If the corporation is incorporated in Canada then you do not lose anything because you will not have any more of these companies.

Senator WALL: There is only one thing I want to clarify for myself. Up to the present in regard to these 4 (k) companies, as we call them, there has been no evidence that they have been misusing or abusing their privileges, and we are anticipating in the future that they might be, and, therefore, in a sense we are taking the extreme case and saying: "From now on there are no more to get this benefit".

Senator ASELTIME: What about these 4 (k) corporations that moved out of Canada with \$400 million with them? Can anything be taxed of that amount, or should they have paid a tax on that amount?

Senator BRUNT: The first question is easy to answer; the second is difficult.

Mr. McENTYRE: Of course, during the period when these companies qualified as foreign business corporations they paid their filing fee, and during the time they were resident in Canada, Canada would have got a withholding tax on any dividends that they paid at that time, so it does not mean that all the earnings of these companies during the whole of their lifetime were never subject to the withholding tax, but at the time when they moved out there was a residue of \$400 million which, because of the movement, became free of withholding tax.

The CHAIRMAN: Senator Aseltine, you do not have to be a foreign business corporation to move out. Any company with a surplus of that kind could move out.

Senator ASELTINE: Without paying any tax?

The CHAIRMAN: Yes.

Mr. IRWIN: May I add one point, sir? As the law stands at present they can move out and do what they wish with the accumulation, and then come back to Canada and start all over again. If this amendment is put through it would stop this parade.

The CHAIRMAN: Well, it is not a parade.

Mr. IRWIN: Well, it is a possibility.

The CHAIRMAN: I was checked a moment ago for not being a purist in language. Are you ready for the question? We have had a full discussion. I think the simple way of dealing with it is to say that the section is a section which withdraws the privilege of qualifying as a foreign business corporation, and ask those who are in favour of it to raise their hands.

Senator ASELTINE: What is the question, again?

The CHAIRMAN: Those in favour of clause 19 will raise their hands.

Senator DAVIES: That is, are we in favour of the Government's amendment?

The CHAIRMAN: Yes. Those who are in favour of clause 19 please raise your hands.

The CLERK OF THE COMMITTEE: Five.

The CHAIRMAN: Will those who are not in favour of clause 19 please raise your hands.

The CLERK OF THE COMMITTEE: Twelve.

The CHAIRMAN: The section is lost. Shall I report the bill as amended?

Senator DAVIES: Could I ask one question? Are we going to adjourn?

The CHAIRMAN: Just a moment. I promised to get an answer for Senator Pouliot. He has gone, but if I do not get the answer for him I will have broken my word. What is the amount of the increase in tax revenue as the result of all the changes in the Income Tax Act this year?

Mr. IRWIN: In 1959-60 the estimated increase in revenue is \$60 million, and for the full year, \$110 million.

The CHAIRMAN: That is the effect of all the changes, pro and con?

Mr. IRWIN: That is correct.

Senator DAVIES: May I ask a question, Mr. Chairman? Is this the act under which you collect taxes?

The CHAIRMAN: Yes.

Senator DAVIES: Is it under this act you get the power to walk into a business premises or the office of a professional man and take charge of his books?

The CHAIRMAN: Yes, that is right.

Senator DAVIES: It seems to me you go a long way sometimes.

The CHAIRMAN: Well, we passed that section some years ago.

Senator DAVIES: It is the only country you can do it in.



